

Corporate universities Working more closely with business schools Inside Track, Page 12



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Prosecuting tyrants How to create a world criminal court Page 16



**Environmental taxes** A good tool but not green magic Page 17

Survey

Pharmaceuticals: to merge or not to merge? Separate section

#### WORLD NEWS

### Indian president calls on BJP's leader to form coalition government

Atal Behari Vajpayee, veteran leader of India's Bharatiya Janata party, was asked to form a BJP-led coalltion government. The request to the Hindu nationalists from President K.R. Nerayanan ended political haggling following the indeterminate outcome of last month's elections. Page 18; PM in waiting, Page 5

Austria stays out of Nato Austria's governing Social Democratic party ruled out membership of Nato for the foreseeable future but will push for close co-operation with the western defence alliance. Page 3

Left confident in French poli . Computer projections of the result of France's regional elections supported the Socialist-led ruling coalition's confidence of success. Page 2

Blair strengthess Utster peace role UK prime minister Tony Blair is set to take an increased personal role in the Northern Ireland peace process as negotiations enter their final stages. Page 7

Israel warns Cook Israel said a planned visit by UK foreign secretary Robin Cook to a Jewish settlement at Har Homa in east Jerusalem was unacceptable. Mr Cook insisted the visit would go

ahead. Page 4 King Hassan of Morocco appointed the first opposition-led government since the country's independence.

Amezon firefighters seek help Firefighters in Brazil's northern Arnazon appealed for reinforcements in their bettle against huge farmland

Chechen president Asien Maskhadov said former British prime minister Baroness Thatcher would head a fact-finding mission to the separatist

Russian region. The BBC is resisting a suggestion that it should become a mutuallyowned organisation, allowing its 21m Ilcence fee payers a vote on its

Px-minister found dead The body of Hugh Coveney, 62, a torner Irish Minister for Defence, was recovered from the see off Cork. He had set off for a cliff walk with his

board of governors, Page 7

Resour peace hopes slim Efforts to prepare for a peace process in Spain's Basque region are hampered by sharp differences between political parties. Page 3

Cypres row settled: The European Union defused a row between France and Greece over Cyprus, allowing necotiations on EU enlargement to start this month. Page 2

Five people were killed and 50 injured when a powerful earthquake measuring 6.4 on the Richter scale,

hit south-east Iran. Strike threat at Berla Plots of iberia, Spain's national air line, announced strike action which could undermine government plans to privatise the carrier. Page 3

Turkey said security forces had killed 24 Kurdish rebels in clashes in the

Protest against Belanus leader About 4,000 people marched in Minsk in protest against sweeping powers awarded to Belarus president . Alexander Lukashenko.

Bulgaries bishop bestified Bulgarian bishop Vincentius Bossilkov, tortured and executed in 1952, was beatified by the Pope, the first martyr of Statinism so honoured.

### **BUSINESS NEWS**

### US stocks may not be overvalued, says Buffett in annual address

Stocks should not be viewed as overvalued as long as US companies continue to achieve strong return on equity and stable interest rates are maintained, said Warren Buffett, the US investor known as the Sage of Omeha, in his annual letter to shareholders in Berkshire Hathaway, the Investment company.
Page 18; Markets Week, Page 24

Britain is to lodge a formal complaint to the European Commission about large state subsidies paid to the German coal industry, Page 2

Roche, Swiss pharmaceutical group, suffered a fresh setback in its bid to market Xenical, its anti-obesity drug, when US experts changed their views about whether it increased the risk of breast cancer. Page 19

France has been told to strengthen leakslation safeguarding the independence of the national central bank or risk not qualifying for economic and monetary union. Page 2

Leveraged buy-outs in Europe reached record levels in the past six months, leaving international banks struggling to absorb a mountain of acquisition debt. Page 19

Stora, the Swedish forestry group, is to launch an efficiency drive to help double profits in the next two to three years. Page 21

Heineken, the world's second-largest brewer, saw its shares surge 7.7 per cent on Friday as it served shareholders a scrip issue and stock split along with an unexpectedly heady rise in annual profits. Page 22

Alkhanik, one of Turkey's largest banks, plans to raise some \$120m by selling about 3.5 per cent of its equity to foreign investors. Page 22

Airteurs, one of the UK's largest package holiday companies, is to operate a customer loyalty scheme by offering points which can be

Hermes Pensions Management, UK pension fund manager, and Lens Investment Management, US corpo-rate governance investment group, are to leunch the UK's first institutionally backed fund to target underperforming companies. Page 20

The New York Stock Exchange is to approach leading European companies to take part in a pilot study which it hopes will encourage a round-the-clock global marketplace for ordinary shares. Page 23

Mercesur, the trade group including Brazil, Argentina, Paraguay and Uruguay, has been urged by the international Monetary Fund to reverse last year's increase in its common external tariff. Page 6

Venezuela's aluminium complex, one of the world's largest, has been hit by a strike which threatens to drive down the sale price less than a fortnight before privatisation. Page 6

Trainen, one of Japan's leading trading companies, is to reduce the number of its directors by a third

over the next two years. Page 22 Australia's government plans to set its remaining two-thirds stake in Telstra, the country's telecoms group worth A\$60bn (\$40.3bn), in one of the world's largest public share

offers. Page 5

EMS: GRID

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London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York Los Angeles · Tokyo · Hong Kong

Nakoruthal Strip Mill, the Thai steel producer, is to receive an injection of \$650m from foreign investors including financier George Soros. Page 21

Telecom Corp of New Zealand, owned by Ameritech of the US, begins the sale of a 24.9 per cent stake in the company. Page 19

Guif Air made operating profits of \$48m last year following a \$156m loss in 1996. Page 23

The charl shows the member

currencies of the exchange rate

weekest currency to the system.

Most of the currencide are per-

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in a 2,25 per cent bend.

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D-Mark and the public which more

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# EU steps closer to single currency

The European Union took a critical step towards a single currency this weekend with a surprise revaluation of the Irish punt and the admission of Greece into the Exchange Rate Mecha-

Dominique Strauss-Kahn, French finance minister, said yesterday: "Europe is now ready or the euro."

The 3 per cent realignment of the Irish punt - agreed by EU finance officials in Brussels on Saturday - was intended to iron out the remaining distortions in Europe's currency grid before on May 1-3. countries fix their bilateral conersion rates in May.

The timing of the drachma's entry into the currency grid also came as a surprise. The Greek government has chosen the time Ireland bring its short-term inter-

Greece enters ERM and Ireland revalues punt before member states fix conversion rates

- a few days ahead of the informal meeting of EU finance ministers in York, northern England to set a clear political signal of its intention to join Emu on Jan-

uary 1 2001.
The weekend decisions leave ministers in a strong position to make the current central rates in the ERM the bilateral conversion rates under a single currency. This decision is due to be taken at a special summit in Brussels

Charlie McCreevy, the Irish finance minister, said the decision to revalue was not prompted by the drachma's ERM entry. The revaluation will help

est rates down toward the Euro- drachma's central rate is around pean average earlier than would

The Irish short-term rate is 6.75 per cent, more than 2 percentage points above German and French rates. Since European economic and monetary union constitutes a single monetary regime, the interest rates of the member countries must converge by the end of this year.

The revaluation brings the central rate of the punt from DM2.41 to DM2.48, close to its current trading levels.

The Greek drachma entered the currency grid at a central parity of Dr357 against the Ecu, the basket of EU currencies. The

10 per cent below the rate at which the currency closed on Friday in London trading.

The decision paves the way for

Greek membership of Emu on January 1 2001, two years after the start of the first wave, but probably ahead of the UK, Sweden and Denmark. The Greek government expects

to meet all qualifying conditions for Emu by the end of 1999, leaving another year to prove that its performance is sustainable.

Greek inflation - once in doz ble digits - reached a low of 4.3 per cent in February. Economists fear, however, that the devaluation could lead to a short term

The UK and Sweden are now the only EU member countries outside the ERM, which allows currencies to fluctuate by 15 per cent on each side of a central rate. The UK and Swedish governments oppose entry into the grid on political grounds, a position that is now almost certain to lead to a policy clash with the Emu group, once Britain and Sweden decide to join the single

currency.
The Maastricht Treaty, which lays out criteria for joining the currency, stipulates two years of ERM membership as a precondition for membership of monetary

Reports, Page 2. Editorial Commen Lex, Page 18

### Suharto's cabinet choice ignores pleas for reform

President Suharto of Indonesia appointed his eldest daughter, his golfing partner and top officials ests to a new cabinet at the weekend, ignoring urgent calls for reform from world leaders and the International Monetary Fund.

Yesterday Ryutaro Hashimoto, the Japanese prime minister, urged him to take "courageous decisions" to reform his country's crisis-hit economy.

Mr Hashimoto emerged from more than two hours of "candid" sian presiabout the economic difficulties facing the country and calling on Mr Suharto to stand by his agree-

Officials from the fund arrived in Jakartz over the weekend for Fuad Bawazier, was previously continuing talks on implementing the reform programme agreed in exchange for a \$40bn financial

cabinet is likely to undermine Suharto's family busines the IMF's efforts to ensure that the reform package agreed in gave B.J. Habibie, his controver-January is put in place. The fund sial new vice-president, unprece-

must decide whether to release a second \$3bn tranche and open the way for further help from the World Bank, Asian Development Bank and donor nations.

Mr Suharto on Saturday appointed his daughter Siti Hardiyanti Rukmana as social affairs minister and handed the ministry of trade and industry to Bob Hasan, his business associate and golf partner. Mrs Siti runs a sprawling con-

glomerate which had one of its power projects cancelled at the urging of the IMF. It would be likely to lose contracts for other dent, expressing deep concern rules to enforce fair public tenders were introduced. Mr Hasan runs a timber and

trading empire that was targeted ments, including his deal with by the IMF for its dominance of the forestry industry. The new finance minister,

director-general of the tax service. He is also treasurer of another presidential foundation rescue package.

But the drastic shake-up of the banks that lent heavily to Mr in the reshuffle Mr Suharto



President Subarto greets Mr Hashimoto at the presidential recidence in Jakarta, Picture Reuters

nomic Co-operation.

dented influence in foreign long-standing opponent of mar- and privatising state enterpris organisations such as the Associ- omy, finance and development.

please the IMF and foreign inves- ter of defence. Ginanjar Kartasasmita, the tors. Tanri Abeng, a respected chairman of the National Devel- business executive, is to head a opment Planning Agency and a new ministry for restructuring Lax, Page 18

affairs. He has been put in charge ket liberalisation, was also made Ali Alatas, popular with diploof relations with multilateral co-ordinating minister for econ- mats, receives a third term as foreign minister; and General ation of South East Asian However, these appointments Wiranto, a well-liked chief of the Nations and Asia Pacific Eco- overshadow others that may armed forces, is appointed minis-

Mahathir names adviser, Page 5

### Investors bet on 'millennium fly'

By Simon Davies Capital Markets Editor

US hedge funds have taken substantial bets in the financial bomb will paralyse the banking system on January 1 2000, forcing interest rates higher.

Futures brokers said there had een heavy selling of December 1999 futures contracts in US and German interest rates, in a financial transaction nicknamed the millennium fly. A trader in New York said more than \$5bn of contracts had been sold.

driving up bond short-term interest rates. This would substantially reduce the value of any straddle the beginning of 2000. The millennium bomb has a very short-term profit

arisen because many computers will be unable to recognise the grams after midnight on Decemowing to consultancy fees that in a time of uncertainty." could come from sorting out computing problems.

so-called butterfly spread, where viding more time to resolve any the investor sells December 1999 contracts, and buys September 1999 and March 2000 contracts. Millenghum 'bomb' clauses, Page 7

This would be highly profitable if short-term interest rates rise and March 2000, when the 3-month interest rate agreement markets that the millennium expires. The activity has all been concentrated in Eurodollar and Euromark contracts, which are based on US and German interest rates. However, brokers suggested that investors might take positions in bond futures

One trader said: "In December 1999, money could become very expensive. People will be out partying for the millennium. These investors believe that computers could be breaking computer problems will cause down, and so there could be a significant financial disruption, scramble for cash. This would be made worse if the bomb has a broader economic impact."

Other investors suggested that interest rate contracts that the hedge funds were scaremongering in the hope of making

Thomas Juterbock, head of US and European government bond year 2000. This could disable pro- trading at Morgan Stanley, said: "It is very hard to discount ber 31 1999. So far, the millen- events that far out. Besides, the nium bomb has had a limited market probably hasn't thought impact on financial markets. It enough about what the Central has driven up the price of some Bank response to this will be, information technology stocks, which will be to provide liquidity

He said that there would probably be an additional bank holiday The millennium fly is a over the millennium period, prodifficulties.

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### Merger of

Commercial Union

General Accident to form

CGU

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Path Paul

Edwar.

Currencies, Page 25

76 28 S. 35

By Andrew Taylor, Utilities Correspondent

The British government is to lodge a formal complaint to the European Commission about large state subsidies paid to the German coal industry. The move would mark an

intensification of the British campaign against unfair competition from subsidised continental European coal

producers. The British government is currently restricting construction of new gas fired power stations in the UK while it conducts a review of power station fuel policy to offset the threat of further

domestic pit closures. It has already lodged a formal protest against state assistance to the Spanish coal industry which it says has prevented British companies from entering the local market.

John Battle, energy minister, said: "British mines whose production costs can be one third of continental European costs, face closure due to a lack of markets while heavily subsidised mines, particularly in Germany and Spain continues to

Calls for an investigation into German state subsidies would embarrass Chancellor Kohl's administration which last year faced serious industrial unrest over proposals to cut coal subsidies and close

The government following huge demonstrations in Bonn decided to remove the subsidies, expected to total DM9.25bn (\$5.2bn) this year, at a slower rate than previously announced.

The Commission has still to approve state subsidies given by the German. French and Spanish governments to their coal industries during 1997.

In a separate move the UK government has written to the commission raising British concerns about the proposed consolidation of the German coal mining

It asked officials to conments of the merger between Ruhrkohle Bergbau, Saarbergwerke and Preussag Anthrazit into a single German coal mining company Deutsche Steinkoble.

RAG, the large mining and energy group which owns Ruhrkohle, is paying just DM1 (55 US cents) for Saarbergwerke owned jointly by the federal government and the region of Saarland. There is concerned that the deal should not provide hidden subsidies to the merged

coal business. Mr Battle has also urged the commission to continue its investigation into subsidies paid to German anthracite producers exporting to the UK.

Celtic Energy, the south Wales coal company, is understood to have to withdraw its original complaint to the commission after receiving compensation -£5m (\$8.2m) - from German coal producers Preussag Anthrazit and Sophia Jacoba.

Mr Battle said: "The UK government is anxious that the commission reaches an early legal decision on these matters to provide a clear framework for a level playing field."

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# EU reaches compromise deal over Cyprus

By Lionel Barber and David Buchan in Edinburgh

The European Union has defused a row over Cyprus, allowing negotiations on enlargement to start at the end of this month.

The row - between France and Greece - centred on whether to pursue talks on membership with Cyprus in the absence of a political settlement between Greeks and Turks on the divided island. A compromise reached at

Greek side on notice that enlargement Cyprus cannot expect automatic entry into the Union.

The agreement involves minor changes to a declaration which the British presidency plans to make at the opening of accession negotiaand Slovenia.

secretary who chaired the meeting, said the Union was

could have delayed the and that the Greek Cypriots enlargement process, triggering a political crisis in the Union. During the meeting.

Hubert Vedrine, French fortions on March 31 with eign minister, pressed hard Cyprus, the Czech republic, for tough language warning Hungary, Poland, Estonia that the EU negotiations with Cyprus could be Robin Cook, UK foreign suspended without progress on a political settlement.

on its side of the French-bro- of a territorial dispute in the Failure to agree on a text kered deal reached in 1995

 unlike central European countries such as Hungary settle differences with their minority. The 1995 deal involved

join the EU. In return. Greece was to lift its veto on a EU-Turkey customs union. Athens did so, but then President Jacques Chirac blocked an accompanying now ready to take the "his- has been irritated that Ecu375m (\$416m) financial

isters in Edinburgh puts the toric step" of launching Greece has failed to deliver package for Ankara because

Mr Vedrine had to accept a slightly weaker link between Cyprus's EU negotiations and Romania - has failed to and a UN-brokered settlement. But Greece had to the Union. accept that the European Commission will make regu-Cyprus receiving a chance to lar reports to ministers on all six accession negotiations - an implicit threat that the Cyprus talks could be

> Mr Cook said that the opening of accession negotia-

tions with Cyprus could spur the UN talks along. In the Turkish half. long-term, however, Klaus Kinkel. German foreign minister, and Mr Vedrine both since he has so far refused said that it was undesirable the Greek Cypriot offer to

to bring a divided island into Jacques Santer, president of the European Commission, said the first phase of inspect his books would accession negotiations would involve "screening" the degree to which Cyprus has adopted EU legislation. This Greek Cypriot south of the

This will present Rauf Denktash, the Turkish Cypriot leader, with a dilemma

take part in a joint delegation in the accession talks. Letting EU officials ment process, but barring access would increase the impression in Europe that he would apply not only to the is the biggest obstacle to a

European

## Socialists set for gains in regions

France's nine-month-old swing to the left. But overall Socialist-led ruling coalition last night looked set to strengthen its hold on the country's 22 home regions and four overseas territories, but not as convincingly as predicted by the opinion polls.

According to exit polls, the three main parties in the government - Socialists, Communists and Greens would obtain 35 per cent of the vote, compared with the tics. figure of approximately 40 per cent forecast by opinion polls in the run-up to vesterday's election.

The exit polls indicated the coalition parties had won five regions outright, whereas the rightwing opposition parties were only assured of clear victories in three regions. After the 1992 regional election, the right controlled 20 of the 22 home

the result, following a low turnout, seemed set to be much closer than expected. The hard-right National

Front did well, according to

the exit polls, with almost 15 per cent of the vote, whereas the other parties of the right were given 30 per cent. Early commentaries last night said voters appeared to have been influenced more by local than national poli-

At the same time, the small splinter parties on the left - hardline Communists and Greens - wooed voters away from the ruling coalition parties.

Commentators predicted that the actual abstention rate would be nearer 40 per cent, unusually high for

This time, a further seven had recovered their morale regions looked likely to and unity nine months after their general election debacle. They also were unable to exploit any issue that might undermine the popularity of the government. This left the field free to

the National Front led by Jean-Marie Le Pen. Campaign polls gave the NF as high as 16 per cent. But given the favourable climate for it, Mr Le Pen needed to show the party's support continued to expand.

The campaign itself excited little public enthusiasm. The regions have only existed since 1982 as administrative entities and have relatively small budgets compared with the municipalities and departments with which voters identify much more. Early reports from the polling stations howed the abstention rate The main rightwing par- likely to be higher than 31 ties failed to demonstrate per cent recorded at the preduring the campaign they vious regional elections.



Jacques Chirac (left) talks to the mayor of Sarran, Michel Poincheval, after voting in regional elections. Picture AP

BANQUE DE FRANCE REPORTS SAY STRONGER INDEPENDENCE SAFEGUARDS NEEDED TO TACKLE PRICE STABILITY THREATS

DRACHMA DEVALUED REFORM TIED TO ERM BID

## Paris warned on central bank powers Greece cuts

France has been warned that it must strengthen legislation safeguarding the indecentral bank or risk not qualifying for economic and monetary union.

on Emu next week.

Charlie McCreevy, Ireland's

enjoying a well earned break

day of the Cheltenham festi-

The 3 per cent punt reval-

uation to DM2.48, announced

on Saturday after a meeting

monetary committee. will

not affect the money in his

or any other Irish racegoer's

pocket. The move merely

brings the Irish pound's mid-

Mechanism into line with its

Mr McCreevy was yester-

gered by Greece's decision to

ERM central exchange rates

prevailing market rate.

rate in the Exchange Rate Friday at 2.50.

Bilateral central rates effective from March 16 1998

in Dublin

pean Union have complied day.
with the Maastricht treaty's Un conditions for entry into the single currency. They will leaders select the founding members of Emu on May 2.

re-enter the ERM, or by pres-

predicament has been a

finance ministers with its

most economists think will

be the benchmark for cur-

rencies entering European

Economic and Monetary

Union. Last September the

against a mid-rate of DM2.41,

but in recent weeks as spec-

ulation of a revaluation

faded, the currency has

get showing a surplus for

day adamant that the deci- the first time, a case for a Irish pound broadly into line

request, and was not trig- could be argued on economic Mr McCreevy said in a state-

fallen sharply, and closed on any threat to our economic

With the economy growing decided that the most pru-

at 8 per cent, with the bud- dent course of action is to

Yet for months, Ireland's

sure from its EU partners.

The European Commission ernment in Paris has and the European Monetary pledged to plug the gap on bility was mentioned "in the tional Court. sider the financial arrange. Institute - forerunner of the the independence of the overall framework of govern-European Central Bank - Banque de France, most ment economic policy have issued the warnings, likely early next month. But which are likely to be ministers have signalled that that France was not at pres- ments in legislation to gium, views the informal repeated in two key reports they want to delay debate in ent in compliance with the ensure France joins Ger- grouping as a political The twin reports will after the French regional ready for the euro. "This is Emu. assess the degree to which elections, the first round not fudgeable. It is a serious Some French ministers are Bank in Frankfurt.

finance minister, will be talking point among EU

today, putting his money on a few horses at the opening its ERM mid-rate - which

of the European Union's punt was trading at DM2.70

sion was taken at Ireland's revaluation of the currency

pendence of the national form the basis on which EU price stability their overrid-The leftwing coalition gov- France gained its independence, the goal of price sta- a challenge in the Constitu-

the National Assembly until treaty and therefore not many as core members of

The central bank has been

DM2.41 necessitating a one-

off depreciation, which could

raise the cost of imports

with the knock-on effect on

cial comment on the deci-

bank's concerns. "I am keen

to ensure that we take

timely action to prevent

inflationary risk from posing

bring the central rate of the

with its recent market rate."

Mr McCreevy's only offi-

'judgment call' on revaluation

banks have pledged to make Maastricht treaty must be policy-making is dominated applied to the letter in order ing policy goal. But in early to avoid giving succour to 1994, when Banque de the opponents of Emu in Germany who have mounted

says that it is committed to

privately urging the govern- as much political. There ford, a leading Irish dairy

ment to consider a revaluation. It was concerned at the tity of the three-year wage same inflationary fears were

inflationary consequences if pact agreed in 1996 - which raised when the Irish pound

increases of 2.5 per cent.

could be undermined if infla-

depreciation of the Irish

pressure on prices. and

Ireland could exceed its tar-

get of 2.5 per cent in 1998

lobby which argued Irish

without remedial steps.

The central bank said ear-

the currency were to go in at envisages annual wage was devalued in 1993.

tion inched up.

a higher rate.

sion echoed the central pound was putting upward

stability. I have therefore Mr McCreevy had to balance

But his concerns were just ager of Avonmore Water-

Union leaders warned it lobby, a revaluation will

lier this month that the lated in Ecus, the EU's

Against the inflation fears. I£100m (\$140m) a year.

the advice of the export as "a judgment call". It rep-

business could be exposed to a coalition government

a future sterling devaluation which after the loss of two

if it was to lock into Emu at by elections last week has a

Pat O'Neill, general man- the 166-member parliament.

of which took place yesterday.

Officials involved in the final countdown to the sintreaty, all national central gle currency insist that the of growth and jobs, and that by central bankers on the German model.

This explains the campaign by Dominique Strauss-Kahn, economics minister, By Kerln Hope in Athens for the creation of a Euro-X The French government club for future members of the single currency A senior EU official said make all necessary amend- France, supported by Belcounterweight to the independent European Central

For the powerful farming

decrease the Irish pound

value of farm subsidies from

Brussels, which are calcu-

Con Lucey, chief econo-

mist at Irish Farmers Associ-

ation, said that going into

Emu at DM2.50 might cut

the value of farm support by

Mr McCreevy described it

resents a brave decision for

majority of just one seat in

accounting currency unit

drachma's entry to Europe's Exchange Rate Mechanism. POLICY TOWARDS EU THE PUNT'S EXCHANGE RATE MECHANISM MID-RATE HAS BEEN MOVED INTO LINE WITH THE MARKET

government

devalued by 13.8 per cent on Saturday under the ERM between the government and the EU monetary committee. The central exchange rate was set at Dr375 to the Ecu.

vesterdav

The package is intended to offset the effects of devaluation on the inflation rate and budget deficit, and ensure that Greece meets the qualifying criteria to join the single currency on January 1 2001.

Yannos Papantoniou, economy minister, said in an interview yesterday: "The adjustment of the drachma's exchange rate is at the level we were seeking - large enough to bring a significant improvement in competitiveness but not so large as to cause a big jump in inflation."

the adjustment in the drachma's value and the government's decision that it should join the ERM months earlier than the date required under single currency rules.

banker. "The currency was overvalued and adjustment was inevitable. But joining the ERM should give Greece a bit more said. credibility with the

After falling to 4.3 per cent in February, inflation is expected to jump by 1 to 1.5 percentage points in the other imported goods. Mr Papantoniou said the government's year-end inflation target of 2.5 per cent "is a matter of concern, but I think it can still be reached".

Mr Papantoniou said enterprises and by using said. private sector financing to complete several infra- on the economy ministry.

Cuts in health and welfare at several spending are also planned. government."

speeds sell-off The spending cuts, equal to about one percentage point Socialist of gross domestic product, would ensure that Greece announced cuts in public can meet this year's budget spending and a speed-up of deficit target of 2.4 per cent privatisation, in a reform of GDP and reduce the

package tied to the deficit to 2.1 per cent of Mr Papantoniou said the The drachma was government intended to maintain its restrictive wages policy and would entry terms agreed at appeal to private sector negotiations in Brussels employers not to exceed this year's 2.5 per cent ceiling on increases for public sector workers.

The reform package and devaluation came under attack yesterday from Greece's Confederation of Trade Unions, which demanded adjustments in the collective wage agreement currently under negotiation. The broadening

'it was a correct political choice. Joining the ERM should give Greece a bit more Analysts welcomed both Credibility with the markets'

of privatisation may also bring confrontations with unions at state enterprises "It was a correct political The reforms would not choice," said a Greek include job cuts, but slated for disposal. transfers and

retirements of workers at state enterprises would be stepped up, Mr Papantoniou

The privatisation law is being revised to permit 100 per cent of equity in state-controlled banks and 49 per cent of state utilities to be sold through the Athens next two months as a result stock exchange. Three banks of higher prices for fuel and and 10 profitable state enterprises are to be disposed of this year.

A third tranche of OTE, the partly privatised state telecoms operator, amounting to 15-20 per cent, will be

offered for sale this year. public spending would be the pace at which we can state-controlled reforms," Mr Papantoniou implement public sector

but needs a concerted effort

1		100	400	100 -	120	100	100		4000			488	
ł	Currency	100 BF/Ur	190 DJ\$1008	D-Mark	Drachma	· Pessia	React treac	1 Irish Punt	. 1000 Lita	100 - <del>Galidar</del>	100 Escuso	100 Schölog	10 Markin
	tielgien trancAFr	100.00	540,723	2082.55	11,4242	21,2147	614.977	51.2210	20.8338	1830.55	29.1214	293,162	678.46
l	Denish kroce	15.4925	100 00	381.443	2.11278	4,48378	113,732	9,47200	2,05296	238,537	3,7212	. 64.2167	125.47
١	D-Mark	4,84837	28.2143	100 00	0.553985	, 1,17547	29,8194	2.48335	1.0101	88.7617	0.975650	14.2136	32.894
l	Dracking	875.335	4733,13	18054.2	190.00	712.222	6383.11	440,336	182,385	18023.4	175.129	2666.15	5938.1
	Pesetà	412.A12	7230.27	2607.22	47.1204	109,00	2636.54	211,267	85,9313	7596.3	£2,9929	1209.18	- 2798.4
1	French franc	16.2906	87.9257	335,385	1.85796	3.94237	100.00	8.32663	3.38773	287.981	3.27188	47.570L	110.33
	Irish Post	1.95232	10.5557	40.2678	0.223038	0.473338	. 12.0963	1,0000	0.406743	35.7382	6.302834	1.72347	13.248
	Lina	4795.50	25054.2	99000.2	548.35	1163,72	29518.3	2458.55	1000,00	87884.4	865.806	14071.5	32566
	Solider	5,48286	29,5386	112.674	9.824057	1.22/45	33.5993	2.79612	7.53812	100.00	1,0992	18.615	37.063
۱	Escudo	496.994	2887.31	10250.5	58.7765	120.497	3068.34	24.S	103.541	9097.53	100,00	1458.97	3371.5
ł	Schilling	34,1108	184.445	703.562	3.89689	8.27006	209.774	17.4719	7.10857	624.415	6.06367	100.00	231.A31
	Marida	14,7301	79.5676	304.007	1,56362	3.5736	39.542	7.54951	3.07071	299.506	2.985/1	43,2094	100.00

# Cracks in Basque peace efforts

By David White in Madrid

Efforts to prepare the way for a peace process in Spain's Basque region are set for an unpromising start this week, with sharp differences between political parties on the scope of any negotiations.

A meeting of non-extremtomorrow is due to discuss proposals by José Antonio Ardanza, the Basque president. The latest fine-tuned text of his plan was sent to parties last week. It rules out direct political talks with Eta, the outlawed organisation which has killed almost 800 people in the last 30

It also sets an indefinite "cessation of hostilities" by

By Haig Simonian, Motor Industry Correspondent

A second strong month for

new car sales in western

Europe has sent many ana-

lysts back to their calcula-

New car registrations last

month rose 9.2 per cent, year

on year, to 1.135m units.

That pushed new car sales in

the first two months of 1998

almost 10 per cent above the

pean Automobile Manufac-

turers' Association (ACEA).

demand may lead to upward

revision of the 1-2 per cent

consensus forecast for

growth in car sales this year.

In February, sales rose in 14

of the 17 countries moni-

The ammunition will come

tored by ACEA.

The unexpectedly buoyant

the year.

**European car sales** 

tors to produce forecasts for em Europe registrations to

corresponding period last by only about 200,000 units

year, according to prelimi- to 22m. That is "still well

nary figures from the Euro- above the generally accepted

from last month's 7.9 per sales in France to climb by

cent rise in Germany - 10 per cent above the

increase by 9.2%

the terrorists as a precondition for peace talks, which sition. The Madrid governwould be held with Eta's ment rejects the idea of a political arm, Herri Bata-

More controversially, it stipulates that there should be no limits for the talks, and that any agreement reached by party leaders in the region should be ist parties in the region accepted by the Madrid gov-

> The Basque Nationalist party (PNV), which heads the regional government. can count on support for the plan from other regionally-based parties as well as the Communist-led United Left.

France showed a gradual

recovery from last year's

weakness after the termina-

Roberto Testore, chairman

of Fiat Auto, expects west-

rise 2 per cent this year to

13.5m units. Although the

growth in Italy, last year's

single strongest market, will

slow as government incen-

tives are reduced, he still

expects domestic sales to fall

'normal' figure of around 2m cars a year", he says.
Louis Schweitzer, the Ren-

ault chairman, more cau-

tiously predicts a rise of just

1 per cent for 1998. However,

he admits the quality of this

year's figures will be higher.

as 1998 will be "a real mar-

ket and not a government-

supported one". He expects

February's sales figures

confirmed the strong show-

tion of a incentive scheme.

But the proposals risk driving a wedge between them and the two main national parties, Spain's gov-

party and its Socialist opponegotiated end to violence in current circumstances as "political fiction". It opposes talks with Herri Batasuna, saying the organisation is incapable of breaking its links with Eta.

The Socialists, part of a PNV-led coalition in the Basque region, are more sympathetic but have reservations about the details of the plan and its timing, with Basque regional elections looming in October. The Socialists and the

TOTAL MARKET

**MANUFACTURERS** 

Volkswagen group - Volkswagen

– Audi – Seet – Skoda\*

Flat group##

- Alfa Romeo

PeugeotCitroen

Ford group#

BMW group BMW

Mazda

Total Korean

Italy United Kingdon

our plans. Go ahead with AXA AXA is a world leader in insurance and

tent managing \$ 500 billion in assets. We provide a broad range of financial services around be to each of the 50 countries where we are present, our mission is the same. To help people a better future. Our worldwide experience of cultures and economies gives us unique

MARKETS:

- Jaguar General Motorsi

- Opel/Vauxhall

PSA Paugeot Citroer

PNV have warned of the risk against terrorist violence that tomorrow's meeting The PNV has attempted at might open a damaging pubthe last minute to calm fears lic breach in the common that the "no limits" plan front which moderate parties might call into question the erning centre-right Popular have tried to maintain terms of Spain's constitution

398,589 231,792

33,063 285,839 164,879

120,960 270,871

266,527 4,344 267,956 255,031

11,234 **241,977** 

66,066 63,331

88,975 43,071

31,179 275,913

409,200

West European new car registrations

Ardanza: last bid effort

Volume Share (%) Share (%) Chango(%) Jan-Feb 98 Jan-Feb 97

100.0

20.6 17.1 11.6 6.7

+10.4

+5.2 +0.1 +18.2 +52.9 +12.9 +5.9 +24.6 +82.6 +18.2 +17.3 +19.4 +11.4

rule statute. Mr Ardanza is launching the initiative as a last bid to get a peace process under way before he steps down in October after 18 years as regional presi-

Tomorrow's meeting is billed as starting a "second phase" of a 10-year-old pact between parties in the region to work together to try to end violence. Mr Ardanza, who believes Eta might be ready to call a ceasefire, is disappointed by Spain's failure in recent years to build a consensus similar to that of the main UK parties on the Northern Ireland peace process.

He is hopeful that his approach will be accepted by



By John Barbam in Ankara

Turkey's powerful military has sharply criticised Mesut Yilmaz, the prime minister, for saying generals were interfering in politics.

Mr Yilmaz, who took office ism is a joint, state strug- with European security

Hürriyet, one of Turkey's mass-circulation newspapers, quoted an unidentified senior officer as saying: "No one in the Turkish Armed Forces has a coup in mind. The subject does not even come up in our conversa-

nine months ago after an army-led "soft coup" against the Islamist coalition of Necmettin Erbakan, has upset the secularist military by refusing to impose curbs on Islamists. He appeared sympathetic to protests by might be the slightly women students over being cheaper option, but would barred from universities because they wore headscarves. Last week Mr Yilmaz obliquely criticised the generals by saying "I am warning everyone...the away from neutrality fight against fundamental- towards closer co-operation

**NEWS DIGEST** 

PILOTS' THREAT

**Austria** 

to rule

entry

out Nato

Democratic party has ruled

out membership of Nato for

the foreseeable future but

will push for close co-opera-

tion with the western

defence alliance and for a

strengthening of a European

security policy within the

"A European foreign and security policy is our central

aim," said Viktor Klima,

Austria's chancellor and the

party chairman. "Joining the

Atlantic military pact would

fall short of that goal and

can therefore not be recom-

mended." A government report on the decision, made

last week will be published

The coalition partner, the conservative People's party.

reacted angrily and threatened to boycott the planned

joint paper. "There has to be a clear signal towards the

West European Union [the

European Union's fledgling

defence arm] and Nato," said

Werner Fasslabend, defence

minister. "Without it, there

The People's party has

pushed strongly for Nato

membership over the past

two years. Its chairman.

Wolfgang Schüssel, foreign

minister, argued that Aus-

tria's traditional policy of

neutrality had lost its pur-

pose with the end of the cold

war and the forthcoming

entry of former East Euro-

When Hungary, Poland

and the Czech Republic

become full Nato members

next year, Austria will be

surrounded on three sides by

said. Staying out of Nato

make the country a free

The government report is,

however, expected to move

Austria's defence policy

rider in security.

the alliance, Mr Schüssel

pean countries into Nato.

is no use in having a report

at all."

European Union.

later this month.

### Iberia strike action could hit privatisation plans

The pilots of Iberia, Spain's national airline, have announced strike action which could undermine government plans to privatise the carrier and sell minority stakes

to British Airways and American Airlines. Sepla, the union representing the carrier's 1,300 pilots said its members would strike for 39 days between March 27 and July 31. The strike days are concentrated on Fridays, Mondays and public holidays and will consist of sixhour stoppages starting at 8am and 4pm that will in effect ground the airline.

The dispute centres on management plans to hire aircraft and crews from a rivel airline, Air Europa, to boost productivity on Iberia's international and domestic routes. Iberia reached a commercial agreement with Air Europa in January to hire 20 of its rival's aircraft and 150 of its pilots. The step was an interim measure to meet increasing passenger demand.

Sepla claims the management wants to peg the salary levels of its members to Air Europa wages. The union said its members earned an average Pta17m-Pta18m (\$113,000-\$120,000) a year. Iberia management says the average salary of its pilot wages is Pta24m, while Air Europa's pilots, who fly more hours than Iberia's, earn Pta13m-Pta14m. lberia's agreement with Air Europa seeks to stem a falling market share on all its routes due to increased competition from other airlines. Tom Burns, Madrid

SPANISH DEMAND

### '35-hour week by 2000'

Spain's powerful General Workers' Union (UGT) has toughened its campaign for a 35-hour working week, demanding a French-style law to impose the measure in the year 2000.

By setting a deadline for "the beginning of the 21st century" the union body, which is traditionally linked to the Socialist party, has gone further than Spain's other main labour federation, Workers' Commissions. At a congress which ended at the weekend, it set out to work jointly with Workers' Commissions to achieve the reduction, which would be without loss of salary. Spain's Socialists echoed their French counterparts last summer by establishing a 35-hour target in a bid to broaden their support on the left. But they emphasised that the move from 40 hours should be gradual and should not be allowed to damage competitiveness or productivity. Joaquin Almunia, the Socialist leader and former labour minister, opposes enforcing the cut through legislation and favours a negotiated agreement instead. David White, Madrid

**RUSSIAN PRESIDENT** 

AR CHARLEST JUNE JUNE 1991 - 1991 HER TOTAL ARE RESET JAN ARE LEVEL AND ARTHUR TO THE CONTROL OF THE CONTROL OF

### Yeltsin 'has cold'

Russian President Borls Yeltsin was well enough to eat meals with his family and is suffering from nothing more serious than a common cold, a member of the Yeltsin family said at the weekend.

Mr Yeltsin cancelled his appointments on Friday, suffering from what officials said was an "acute respiratory

The announcement set off fresh worries about his health. an issue which has haunted politics since his heart attack in 1996. Chrystia Freeland, Moscow



ece cuts ading and

Europe's biggest car market depressed level for 1997. and the continuing strength of sales in Spain and the UK. Sales in Italy ing by Japanese and South also grew on the back of the Korean carmakers already government's continuing seen the previous month.



# King Hassan brings in opposition

By Roula Khalaf, Middle East correspondent

Morocco's King Hassan at the weekend appointed the first apposition-led government since the country's independence, but the palace retained key aides in crucial

Led by 73-year-old Aberrahmane Youssoufi, leader of the Union Socialiste des Forces Populaires, the new government has seven parties in a coalition, with the opposition bloc - headed by the USFP and the nationalist Istiqlal party - taking the lion's share of posts.

The interior ministry. which enjoys wide-ranging-powers and controls local governments, remains in the hands of Driss Basri, the king's trusted adviser. Abdellatif Filali, the incumbent prime minister, is also staying on as foreign minister, at a time when the fate of the Western Sahara, where Morocco claims sovereignty while the Polisario Front seeks independence. could be coming to a head with a referendum planned for the end of the year.

The king signalled several the opposition into the government. But in elections last November no bloc emerged as the winner. The USFP, which came out as the single biggest party, won just 57 seats in the 325-memopposition bloc 102 seats against 100 for pro-government parties and 97 for the centre. Meanwhile, elections for the upper house - which ended with a centre and

pro-government majority. Following the opposition's Rachid Filali. complaints of vote-buying the poll had dashed hopes government for the first

weekend that the cabinet sector.

issues of the Western Sahara, employment and improving social conditions. His government takes over at a time of rising frustra tions and unprecedented expectations, with an urban unemployment rate of 16 per cent, widespread illiteracy and a population waiting to reap the fruits of Morocco's macro-economic stabilisa

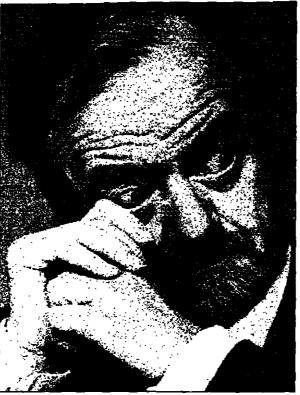
"There is an extraordinary wind of optimism in Morocco, and this can be dangerous," said an analyst with close ties to the USFP. With governments since the early 1990s seen as transi tory, many Moroccans have been waiting for a stable and representative cabinet to tackle the country's problems. Analysts noted that both the palace and secular opposition have an interest in the success of the new government, to avoid letting in the Islamist opposition now only marginally repre sented in parliament.

Financial analysts in Casablanca said the opposition parties would now face the challenge of honouring commitments to social issues years ago his desire to bring while keeping the budget under control. Foreign investors will be closely watching for the new government to tackle corruption and Morocco's huge and inefficient bureaucracy.

The opposition will control ber lower house and the the economic portfolios but will maintain the line set down the king's market-reform orientation.

The USFP's Fathallah Oualalou, a respected econocan force the resignation of a mist, becomes finance and government, as can the king economy minister, while the privatisation portfolio is banded to the Istiqlal's

Senior officials in the curand irregularities during the rent government said they elections, and criticism that expected privatisation, which has recently faced setfor change, the king gave the backs, to remain a pillar of USFP the chance to form a economic reform, with the government this year launching the privatisation Mr Youssoufi said at the of the telecommunications



Robin Cook brushed aside Israeli protest Picture Reuters

# HAR HOMA NETANYAHU SAYS TRIP TO NEW SETTLEMENT IN JERUSALEM IS "UNACCEPTABLE" Cook warned on Israel visit

The Israeli government yesterday said plans by Robin Cook, UK foreign secretary, to visit the site of a Har Homa in east Jerusalem were unacceptable.

A statement issued after a cabinet meeting said the Prime Minister Benjamin Netanyahul said the visit of the British Secretary to Har Homa is unacceptable to the Israeli government."

However, the statement fell short of saying Mr Netanyahu, also acting foreign minister following the resignation three months of David Levy, would not meet Mr Cook.

The Israeli government has always claimed it could

Jerusalem and that the capital is an undivided city. But over Jerusalem. Its future status is supposed to be left new Jewish settlement at until a final settlement between Israel and the Palestinians.

The cabinet statement was issued on the eve of Mr Cook's three-day visit to the Middle East, designed to make a greater European Union contribution to the peace process and to retarget EU aid more effectively on the Palestinians, Earlier, after a meeting of EU foreign ministers on Saturday in Edinburgh, Mr Cook brushed aside an Israeli protest at his plan tomorrow to visit Har

the Middle East in his capacity as the current president of the EU, said his 14 fellow has not recognised Israel's EU foreign ministers were claim to full sovereignty unanimous that we should make clear that we do not support expansion of settlements and I should make that clear in the course of my visit by visiting Har

Homa " Mr Cook said he hoped that the EU - the biggest aid donor to the Palestinians would henceforth focus its assistance on trying to improve access for Palestinian goods to reach the outside world, particularly through the planned Gaza air and sea ports. He emphasised that Europe was not trying to upstage the US in the peace process.

Mr Cook said last night Mr Cook, who is making the main purpose of his trip

build where ever it liked in his six-nation swing around was to "stress the importance Europe places on a positive resonse" to a peace initiative which Washington is due to make "in the way near future". He added that he had been in close touch with Madeleine Albright, US secretary of state.

Avi Machlis adds from Jerusalem: A senior Israeli minister at the weekend tabled a new proposal for an Israeli troop withdrawal from occupied south Lebanon in an apparent attempt to try to keep the initiative in Israel's hands. Ariel Sharon, infrastructures minister, proposed a staged unilateral Israeli troop withdrawal.

The statement came as Syrian and Lebanese leaders discussed Israeli offers for a pullout in exchange for security guarantees at a weekend summit in Damascus.

## Developing countries urged to update phone rates

Developing countries must accept the need for reform of the way the costs of international phone calls are shared between operators and join the move to competitive and globalised telecoms markets. according to the International Telecommunication

In a background document

Nations agency, says the old accounting-rate system is heading for "the scrap heap" under the pressure of vigorous competition and new technologies such as callhack refiling (re-origination) and internet telephony. Developing countries.

which currently receive a net \$10bn a year from national calls, which often accounting rates, face losing prepared for the second a valuable source of foreign world telecommunication exchange earnings for policy forum, which begins improving their telecoms today in Geneva, the 188- systems, subsidising domes-

member ITU. a United tic customers and paying for other government services. But the ITU says the benefits of liberalisation, including increased foreign private investment, outweigh the costs of trying to maintain an outdated system that is increasingly being bypassed

by cheaper alternatives. Accounting rates for interbear little relation to cost, are agreed bilaterally between operators under a system administered by the ITU. Originally devised over

130 years ago for international telegraph traffic, the system worked reasonably monopolies and balanced traffic between countries.

However, the situation is changing rapidly. The ITU notes that the proportion of to-end" services over their international telephone traffic open to competition has more than doubled from 35 per cent in 1990 to 74 per cent today and is predicted to rise to 85 per cent by 2005. Some 72 countries repre-

senting over 90 per cent of the global telecoms market have pledged to allow forwell in an environment of eign operators into their state-owned telecoms markets under a World Trade Organisation accord which came into force last month. enabling companies increasingly to provide "end-

> own networks. Moreover, the US, whose annual net payments under the accounting-rate system have risen to nearly \$6bn (partly reflecting the explosion in US-based callback solution in the ITU.

decided to force the pace of change by slashing maximum permitted rates for international calls paid by US operators.

This unilateral action. already under challenge in the US courts, has infuriated many ITU members and some, such as India, have threatened to complain to the WTO. But Donald MacLean, the ITU's strategic planning chief, says all sides would prefer a multilateral

### Turkmenistan seeks to attract foreign oil and gas investment

Carlotta Gall reports that reforms in the central Asian state have impressed executives of oil companies willing to join in the development of offshore Caspian Sea resources

sign several big production sharing deals with foreign oil companies this year, as oil and gas sector reforms finally attract largescale inward investment.

Qualification for Turkmenistan's first tender to explore offshore Caspian fields ended last week and Toili Kurbanov, minister for foreign economic relations, promised negotiations would

PERUSAHAAN PERSEROAN (PERSERO) PT TAMBANG TIMAH Tbk

**AND SUBSIDIARIES** 

for Turkmenistan. We anticipate several deals," he said.

world's fourth largest gas ern intention has also reserve as well as an estimated 2bn to 4bn barrels of oil, but has been slower than its neighbours in the Caspian region to invite in foreign oil companies.

The former Soviet republic has been hampered by its foreign investment.

"urkmenistan expects to proceed quickly. "This year lack of export pipelines. is going to be a critical one Until last year its only pipeline link was via Russia. Lack of market reforms and Turkmenistan has the a lingering suspicion of west-

deterred would-be investors.

Mr Kurbanov, a 26-year-old banker who gave up a traineeship at Citibank in London to return home last year to his new post, is spearheading new policies to attract

Head Office :

Ji-Jend, Sudirman No.51

Pangkalpinang, 33121

Bangka, Indonesia

work. "They are young professionals, enthusiastic in their work and are trying to adopt international practices, John Peck, managing director of the Malaysian oil company Petronas Carigali, said of Mr Kurbanov's team. "For indeed.

Mr Kurbanov's appointa general shift in Turkmenistan's policy towards investors. In the last year the government has passed a law on petroleum, drawn up model contracts for production sharing agreements and set up an expert council to work on long-term strategy.

the petroleum law as laving out a vision for equal treatment of national and foreign oil traders, a favourable tax regime and the use of PSAs and joint ventures for petro-

It is part of President Saparmurat Niyazov's plans to create a friendly environensure market reforms were irreversible, he said.

The government's new

were queueing up to meet Mr Kurbanov at an oil and gas conference in the Turkmen capital, Ashkhabad, last TURKMENISTAN week. The young minister not only speaks fluent American-accented English but he and his team understand how foreign companies

line has increased investor confidence and drawn more prospective investors to Turkmenistan. "There is a us it is very encouraging lot more interest than two years ago," said Scott Barber, vice president in Turkment 12 months ago signifies menistan of US company Unocal. "The new law and model contract signal a

change in attitude." Elly Gurbanmuradov. director of the State Agency promised to "establish a new investment climate" by raising financial reporting and Mr Kurbanov described accounting to international standards and introducing new rules on oil and gas extraction.

He forecast that investment would triple over the next two years from \$700m

But western diplomats and financiers were more cautious. They said that ment for investors and to the energy sector was the only area of government the words of one one oil

The country has fallen heavily into debt since gas exports were stopped a year ago after a dispute with Russia over tariffs. The budget ran a deficit of \$500m last year - 25 per cent of gross domestic product - and debt levels doubled to \$1.2bn. Ashkhabad residents say there were bread shortages

remained in a precarious

for six months last year. Western officials say Turkmenistan's revival hinges on its hope of resuming gas sales, despite the failure six weeks ago of talks on the dispute with Russian.

Mahat

to lead

MN / Mir Th

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 $P_{\{M_{Q_2,Q_1,Q_2}\}_{Q_1}}$ 

( The second sec

MOBARASINES

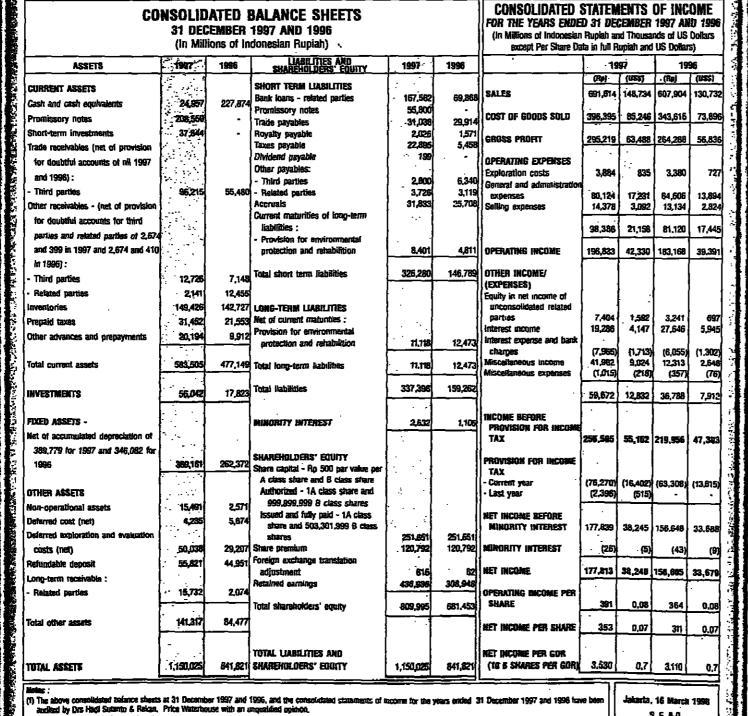
RAW MATERIAL &

FAR WAS DE TATE

The huge wealth of its energy resources will take a long time to materialise. though. Turkmenistan has difficulties it faces in exporting its oil and gas to international markets. Western oil experts say obstacles are the dispute over the status of the Caspian Sea between the for Foreign Investment, five littoral states and the lack of firm solutions for

export pipelines. Every proposed pipeline is bogged down in political complexities, whether the one through Iran, which is out-of-bounds for US companies (and other groups risks incurring US sanctions) or through Afghanistan, with its continuing civil war or through the disputed area of Caspian Sea itself

Until those issues are resolved investment will, in undergoing real reform and executive, be "slow and mea-



(2) Operating Income per starts and set income per starts are computed by dividing operating income and set income by the weighted greatege number of A and B class shares issued

(4) The translation of Rugian into US dollars has been made at Ro 4,650 = US\$ 1 solely for the commentence of the reader and does not form part of the consolidated finance

3) Net income per GDR is computed by multiplying net income per share by 10, which is the number of shares per GDR.



Time: April 15th-30th, 1998 Sponsors: Chinese foreign trade enterprises Sponsors: China Foreign Trade Centre (Group) Add: 117 Liuhua Road, Guangzhou, P. R. China Tel: 86-20-86678000 Ext. 87621, 87631, 86665846, 86661684
Fax: 86-20-83335880, 86665851
Http://www.coof.gz.com/E-mail:cooffid@clet.cn.net



S.E. & O.

BOARD OF DIRECTORS OF

PT TIMAN TOK

By Gwen Robinson in Sydney

John Howard, the Australian prime minister, said yesterday his government would sell its remaining two-thirds stake in Telstra, the country's telecommunications (US\$40.8bn), in one of the world's largest public share

The plan was attacked by opposition leaders and sparked fresh debate about the government's ambitious

Mr Howard, speaking at a November enabled the gov-The proceeds from the Telworth A\$60bn stra sale would provide a debt, slashing annual inter-"social bonus" for Austral- est payments. Foreign ownians, enabling the govern-

repay national debt, he said. The initial one-third listing of Telstra on the Austra-

national conference of his ernment to cut national debt Liberal-National coalition, by about \$900m. Mr Howard linked his pledge to the re- said yesterday the sale of the for a referendum on the election of his government government's remaining issue, setting the stage for a in the next national poll. stake would allow the retirement of about 40 per cent of

ership of Telstra would be ment to fund a variety of limited to 35 per cent, with a election promises as well as 5 per cent ownership limit applicable to each foreign investor, he added.

shares, while independent MPs and small parties called fierce political battle. The in parliament's lower house, but in the upper house, or

senator and small parties. Kim Beazley, opposition

Senate, the balance of power

lies with an independent

great national institution out of their hands," he said.

Brian Harradine, the independent senator whose vote sage of legislation for the initial one-third Telstra float, said he had reservations about a further sell-off.

the Telstra sale would widen leader, described the govern- the gap between rich and

lian Stock Exchange last party said it would fight to "In the end, all Australians poorer people will get worse November enabled the gov-block further sale of Telstra will lose by the loss of a communications services

Mr Howard is widely expected to call an early election by October, partly because of fears that Asian economic upheaval will begin to affect the economy. He said he would soon introduce legislation to enable after the return of election

### India's PM-in-waiting a man more popular than his party

Vajpayee is charming but the BJP's agenda is still seen as controversial, sectarian and divisive, writes Mark Nicholson

ndia's vast electorate may have delivered a complex, indeterminate and awkward parliamentary verdict Nehru-Gandhi dynasty. in last month's elections. But Indian voters have at least handed the country's bity, genial charm, clever leadership to its most popu- rhetorical skills, ready wit lar politician, Atal Behari Vajpayee, the 71-year-old haps mostly, his standing as Bharatiya Janata party a moderate within a party leader and self-styled "prime minister-in-waiting" who looks set to be sworn into the BJP's Hindu-based and office this week as head of sectarian ideology of "culan unruly-looking BJP alli-tural nationalism".

It will in fact be a second chance at the helm for the schoolteacher's son from Gwallor in north India. Mr Vajpayee and the BJP held office for just 18 days after the indeterminate May 1996 elections, failing then to muster enough allies to govern. This time his tenure looks certain to run longer.

Mr Vajpayee, a published poet but lifelong politician, has consistently outscored the popularity of the Hindu nationalist BJP. Just a quarvoted for the party. But opinion polls routinely showed more than 40 per cent of Indians felt Mr Vajpayee would make the best prime

Sonia Gandhi, the opposition Congress party's star per-former and heiress to the

Such standing is testimony to his perceived proand easy laughter and, perwhich houses many sterner. more strident advocates of

Mr Vajpayee is, as adversaries would put it, the "acceptable face" of the BJP. "He's a nice, avuncular senior statesman who makes you feel good," says Jairam

Certainly, Mr Vajpayee's smiling face was consciously used by the BJP during the long election campaign, during which he addressed more than 80 rallies. Many of the BJP's new regional party alties may have differences with the Hindu nationalist party's core agenda, but few had qualms inviting votes to deliver Mr Vajpayee as an "able prime minister".

Less clear, though, is Mr

its more militant ideologues

For many, the party's central leader is in fact Lal Krishna Advani, party president and a harder-nosed figure altogether. Indeed, Mr Advani said lately that he had decided the party should project Mr Vajpayee as its prime ministerial candidate because "it has long been my view that in a country as vast and varied as India, the party leader should not be perceived as someone as ideologically rigid as I am. . . perceived to be."

he comment, however, raises the issue of the BJP's nature and the degree to which it seeks to pursue its more controversial policies of Hindutva or "cultural nationalism", policies its opponents have long opposed as religiously divisive and in many cases anti-

Such policies will likely be soft-pedalled or even ignored while the BJP depends for governance on more than a dozen regional allies, almost all of which oppose Hin-Vajpayee's true standing duton Instead, the coalition



prime minister-in-waiting - will the waiting prove to have been worth it?

reviving the economy and improving social services, which will provide the basis for government.

But Hindutva remains the BJP's defining ideology, and Mr Vajpayee's relationship to this ideology and its prime proponents within the BJP and its fellow organisations is ambiguous. The chief such organisation is the Rashtrya Swayamsevak Sangh, a sect-like, ascetic and highly organised brotherhood established in the 1920s and devoted to the ideals of *Hindutva*. Many senior BJP leaders belong to

the ranks of the RSS. Though Mr Vajpayee's within the BJP and, in par- partners are set this week to more worldly lifestyle sits

announce a "National uneasily with the asceticism other BJP leaders. This Agenda" of issues such as of the RSS, the future prime of the organisation since the 1940s and was embarrassed during the election campaign by publication of an article from a 1995 issue of The Organiser, the RSS jour-nal, titled "The Sangh is my life", in which he spoke approvingly of its aims. The

RSS was, he said, devoted to "changing the collective mind" in India, in particular to "organise the Hindus", while aiming also to "assimilate the non-Hindus, like Moslems and Christians in the mainstream".

Mr Vajpayee disavowed these remarks and, in fact, commands more respect

derives in part from his affairs during the Jana Sangh government, in which an earlier incarnation of the present BJP held a coalition berth. Mr Vajpayee then made serious efforts to improve India's relations with China and Pakistan.

His conciliatory and consensual qualities while in office therefore have precedent. Now, however, they are likely to be tested as never before. "I've been waiting 40 years to be prime minister, now it is my turn," Mr Vajpayee said recently. He and India will soon discover whether it was worth

### Mahathir names chief adviser Battle for top to lead 'virtual IMF policy'

Mahathir Mohamad, the Malaysian prime minister, has designated his chief economic adviser, Daim Zainudrefer to as the country's "vir-

Unlike its neighbours, Malaysia has resisted turning to the International Monetary Fund for a rescue package to address the effect of the regional financial crisis. Instead Malaysia has devised its own austerity package which observers say is an IMF programme in all but name: spending is being squeezed and big ticket projects suspended.

Mr Daim is at the heart of the package. He is a success-

former finance minister dur-ing Malaysia's last crisis, the mid-1980s recession.

respect as an elder statesman. He was therefore seen as the perfect figure to explan economic policy after tensions rose between Dr Ibrahim, over how to handle the crisis. But he has not been given

carte blanche enforcement restore investor confidence and revive the economy. Mr Daim said in an inter-

view the conflicting statements from Dr Mahathir and Mr Anwar created a "big problem". Investors do not know who to listen to. To

spokesperson be designated, as in the 1980s, but that has He commands huge not happened.

When the authorities

imposed a sweeping plan to merge the 39 finance companies and some of the 36 commercial banks by March 31. Mahathir and his deputy and Mr Daim advised against finance minister, Anwar announcing a deadline. His instincts were proved right as negotiations have been tough, forcing the authorities to "clarify" that the powers and that appears to deadline was only for be undermining his efforts to finance companies to agree on partners, as well as in principle on terms, and that there was no deadline for any of the commercial

banks. This has rattled confidence in the authorities' ability to reform the sector. From the start Mr Daim ful businessman and was a eliminate confusion, Mr advised against bailouts.

"There isn't a firm decision yet," Mr Daim says. In the meantime, analysts are pointing at deals they consider government-sanctioned

They also noted the decision by Petronas, the state oil company, to buy the shipping assets of Konsortium Perkapalan, a debt-burdened company controlled by Mirzan Mahathir, Dr Mahathir's eldest son.

Perhaps Mr Daim's most controversial recommendation has been to set aside racial quotas on share ownership, the cornerstone of an economic policy to give the majority Malay race parity with the wealthier Chinese minority. In the 1980s the authorities eased such curbs in manufacturing, which

# job at Japan's central bank

By Michiyo Nakamoto and Gillan Tett in Tokyo

A bitter battle is heating up over the succession to the top job at the Bank of Japan (BoJ). But this time, the race for the governor's post, which is expected to be vacated by Yasuo Matsushita within weeks, is likely to be subject to different pres-

In the aftermath of the worst scandal that has hit Japan's central bank since its founding, politicians have been throwing their weight around even more than usual in a tussle over the bank's <u>independence.</u>

Mr Matsushita is resigning following the unprecedented arrest of a BoJ official on suspicion of leaking critical information to two banks, in exchange for lavish enter-

The choice of a new governor would normally be determined by a long-held practice of alternating between senior central bank and finance ministry (MoF) officials - a tradition unbroken for nearly three decades. But the extraordinary cir-

cumstances of Mr Matsushita's resignation have provided politicians with an excuse to try to influence the contest. This in turn is raising concerns about the impact political interference could have on the BoJ's independence.

Political pressure on the central bank governor had been building up even before the scandal began to unfold. For months, Hiromu Nonaka, an influential figure in the administration, had made unusually public calls for the resignation of Mr Matsushita, who was seen to have used his influence as a former finance ministry official and former executive at Sakura Bank, to "descend from heaven" to the top job at the central bank.

Now that Mr Matsushita is to go, politicians in the LDP see an opportunity to wrest policy-making power from the bureaucrats and, at the same time, improve their public image at the officials'

LDP politicians have been calling for a new governor who comes from neither the bank nor the ministry.

LDP desperately needs to boost its public image. By showing that they have a say in the BoJ succession, LDP politicians can claim the party is ready to act decisively and ruthlessly against corruption.

More worryingly, says Takao Toshikawa of Tokyo Inside Line, a newsletter, there is a camp within the LDP which has long aimed to weaken the power of the bureaucrats. "Governments in the past could not govern without the MoF," Mr Toshikawa says. Their intervention in the affairs of the bureaucracy, including the BoJ, will increase.

In addition, the new BoJ law which comes into effect next month requires greater disclosure of BoJ activities, raising the possibility that politicians will find it easier to influence decisions. Senior bank officials are already called to address the Diet more often than before.

Central bank officials acknowledge that the politicians are wielding considerably more power than they used to. But the BoJ is in a fairly strong position to resist political pressure.

For one thing, the Bank's future independence has already been defined in the new BoJ law. However bad the scandals, it is highly unlikely that the politicians will try to change the law passed last year.

The finance ministry, by contrast, has been damaged by the fact that the scandals have erupted just when its future is being discussed.

Under the new BoJ law, monetary policy decisions will be taken by a nine-member board and the minutes of their meetings published. There will be no politicians on this board and politicians will not be able to demand policy changes directly. Furthermore, politicians have shown little inclination to influence daily money market operations or even the level of the yen. And the bank's recent handling of the financial crisis - in contrast to that of the MoF - is enerally considered to have been reasonably good.

So while political interference is set to increase, it is not expected to affect mone-With national elections tary policy seriously.

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### **Budget** discipline 'worse'

Government budget discishowed signs of deteriorating last year even as the Bank says in its annual report published today.

though the populationweighted budget deficit for the region averaged just 2 per cent in 1997, deficits widened in 16 countries and exceeded 3 per cent of GDP in 10 of them.

The fiscal performance represents a disappointment. given growth of 5.2 per cent last year, the second fastest annual growth rate since

The report says the growth allowed unemployment to fall in the region for the first time since 1989. Real investment jumped by 10 per cent across the region, gross domestic product, compared with 16 per cent in the

• Confidence among US portfolio investors about tions, the forecast depends Latin America has weakened in the past year, to a survey

published yesterday shows. The survey, commissioned by BankBoston of the US and announced in Cartagena, showed that 66 per cent of investors were more confident about the region Asia - but by most measures than they were five years of financial vulnerability ago compared with 81 per

INTER-AMERICAN DEVELOPMENT BANK ASIAN CRISIS OVERSHADOWS LATIN AMERICAN DISCUSSIONS

# IMF calls on Mercosur to cut tariff

Directors pline in Latin America International Monetary Fund have urged Mercosur. the trade grouping including region put in one of its Brazil, Argentina, Paraguay strongest economic perfor- and Uruguay, to reverse the mances for years, the Inter- increase decided late last American Development year in the group's common external tariff.

The call was contained in The report remarks that the report published by the Fund over the weekend to

can Development Bank. The report, which followed

the IMF's annual consulatations with Brazil, drew attention to high levels of financial markets. protection in some industrial sectors, and said some directors had called for a reduction in the protection provided to the motor industry.

The directors said: "The recently agreed increase in the common external tariff ran counter to the trade liberalisation trend." Argentina

meeting of the Inter-Ameri- and Brazil agreed an November last year, amid turbulence in the Asian

The tariff increase was ostensibly a move by Argentina to replace a "statistical tax" on imports criticised by the World Trade Organisation last year. However, it was widely interpreted as a measure intended to curb kets. large current account deficits in Argentina and Brazil.

points in the tariff in ary measures and pending ing last year's overall fiscal reduction in interest rates fiscal reforms and follow prudent monetary policy to ensure a sustained reduction in Brazil's current account deficit, which rose to 4.2 per cent of gross domestic prod-

> minimise vulnerability to the continuing volatility in international financial mar-

uct last year. This would

deficit of 5.9 per cent of gross during the course of the domestic product.

spending by the Brazilian states last year, it said that spending restraint by the states was essential. However the fiscal policy

envisaged - together with the use of most privatisation It said the government receipts for debt reduction should resist spending preswould facilitate a decline in

The Fund stressed Brazil's sures that might arise in a the overall public sector defiincrease of 3 percentage need to implement budgetpoints in the tariff in any measures and points are substanted as a substanted and the points are substanted as a substanted as

The government was also cern about the increase in urged to step up its efforts to reverse the recent shortening of maturities of new public debt and to reduce the share of debt linked to for-

eign exchange rates. Directors "generally" supported Brazil's current policy of gradually depreciating

### Caracas sell-off hit by

By Raymond Coliti in Caracas

general strike by employees of Venezuela's aluminium complex, one of the world's largest, threatens to shake investor confidence and drive down the sales price less than a fortnight before the privatisa-

With the government under pressure to see through the country's largest privatisation, workers at the Venezuelan Aluminium Corporation, a subsidiary of CVG, the state industrial holding company, began action last week in pursuit of wage rises and other labour benefits.

They are demanding a oneoff "productivity bonus" of 600,000 bolivars (\$1,150) and a 12 per cent wage increase to match that paid by the bauxite plant, Bauxilum, one of four companies merged to

form the corporation. "It's obvious that they are taking advantage of the situation," said Alfredo Rivas, a CVG official, at the weekend. A productivity bonus was "absurd" as sales and production were down last year. However the bonus would be considered at a sharebolders' meeting on March 23, two days before the scheduled

Combined production losses at the two aluminium smelters, the carbon anode

producer and the bauxite plant that make up the corporation could reach \$2m a day. Mr Rivas admitted production had been affected at the strike, but said a contingency plan maintained the "operative" and avoided damage to the production cells. The government last Friday fixed the base price for a

70 per cent stake in the corporation at \$2.1bn. The remaining shares will be offered to employees and retail investors. Merrill Lynch, the investment bank managing the sale, is said to have recommended a base price of around \$1.8bn. Yet, as one government official explained, "a base price under \$2bn would have provoked political opposition". An increase in wages

would come on top of some of the most generous labour benefits in any aluminium future owners will also have to negotiate with a group of Japanese investors, who have a small share in one of the four companies. They are expected to trade their partial veto right in exchange for a guaranteed

supply of aluminium. The strike comes only days after it was known the government might have to return as much as \$150m to the consortium that bought the CVG's steel plant, Sidor.

of the plant.

### \_atin America looks muscular enough to fight off a crisis

Stephen Fidler examines World Bank's assessment of region's growth prospects in the light of Asia's economic problems

sia's crisis will shave 1.5

Growth is now expected to to a 21 per cent share of slow to 2.9 per cent this year. compared with its pre-crisis exchange reserves, which estimate of 4.4 per cent. from rendered countries vulneraestimate of 4.4 per cent, from

5 per cent in 1997. But like all such predicon Latin America avoiding a crisis of its own.

According to a new report from Guillermo Perry, chief Latin American economist of the bank, regional economies are not immune from the problems that afflicted they look stronger than their Asian counterparts.

According to Mr Perry, restricted the authorities' A percentage points off four factors, appearing in different degrees across the this year, according to new crisis-hit region, contributed projections from the World to the vulnerability of the Asian economies.

 A build-up of short-term debt exceeding foreign ble to speculative attack. Heavy unhedged foreign

currency borrowing by reduced the ability of the authorities to devalue in a timely fashion without putting the private sector under great financial pressure. High levels of debt and low-quality bank loan portfo-

lios meant banks and compa-

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sector. Some economies faced exchange rate appreciation, encouraging a slowing of export revenues and high or widening current account deficits. There were five root causes of these problems, banks and companies according to Mr Perry. First,

tive currency attacks.

• A more traditional vul-

nerability of the external

moral hazards - incentives to individual behaviour running counter to the public good - were evident in financial sectors. These hazards, such as implicit or explicit deposit insurance schemes, led bankers and nies were vulnerable to rises investors to over-invest in in interest rates or economic financial assets. slowdowns. This again

Second, crony capitalism

covered up unprofitable no large credit booms.

Third, lax regulation and supervision of the financial system were aggravated by a lack of reliable information about banks.

Fourth, rigid exchange rate regimes led to perceptions that the risk of devaluation was low, while the linkage to an appreciating dollar curbed exports.

Fifth, "partial and ill-sequenced financial and capital account liberalisation programmes" had eased restrictions on foreign borrowing, while restricting foreign ownership of the domestic banking sector.

Mr Perry said Latin America shared some of these problems. But in other respects, the region was less susceptible to crisis.

The main Latin countries. apart from Peru. experienced

indeed, credit growth slowed after the 1994 Mexican financial crisis in Argentina, Brazil, Mexico and Venezuela. Asset prices had increased by less than in the Asian countries, with the exception of Peru and Brazil.

Latin American economies also had higher ratios of reserves to M2 - a common measure of a country's vulnerability to runs on the currency. Bank restructuring and improvements in supervision have taken place across the region since the early 1980s, leaving financial sectors healthier than in Asia. Most exchange rate regimes, save Brazil and Argentina, were flexible though foreign currency exposure of some economies was high Brazil. Chile and Colombia discouraged

short-term capital inflows.

Moreover, Latin American economies did not appear to have high ratios of short-term debt to reserves compared with their Asian counterparts. Only in Mexico and Argen-

tina were reserves exceeded by bad debt with maturity of less than a year, but their debt-to-reserves ratio was still lower than in Thailand, Indonesia and especially

And although there was some currency appreciation in Latin America between 1994 and 1997, it did not lead - for a variety of reasons to slowdowns in export reve-

"Though some indicators of vulnerability were apparent in some Latin American countries, they were not in general as severe as those of their Asian counterparts." Mr Perry concludes.



### Battle against Amazon fires

Firefighters battling infernos in Brazil's northern Amazon appealed for more men and equipment yesterday, but the arrival of assential waterbombing helicopters was delayed, Reuters reports from

Boa Vista. Fires, set by subsistence farmers in the state of Roraima, have burned out of control for swathe of land like that pictured above near the border town of

Officials say 2.2m acres of farmland has gone up in smoke, while a severe drought has killed 20,000 cattle.

Now the flames are eating into remote rainforest areas which are normally too wet to burn. A column of fire has pushed at least seven miles into the Portugal-sized jungle reservation of the primitive Yanomami indians A fire chief said 110 firemen

were trying to control the blazes but only 40 could work at any one time. The fires were spreading out of sight, under a carpet of dry leaves and branches on the forest floor. Reinforcements were due to

arrive late yesterday a 70-member firefighting team from distant Rio de Janeiro was expected today. Roralma state officials are to rent 22 nelicopters from a company in Venezuela. Picture AP

last December.

A lack of investment and maintenance in the weeks before the sale is said to have worsened the condition

WHITE HOUSE KATHLEEN WILLEY MAKES PUBLIC ALLEGATION OF IMPROPER SEXUAL ADVANCE

### Claim deepens Clinton troubles

President Bill Clinton's political and legal troubles over reported sexual liaisons and subsequent cover-ups deepened at the weekend with the first direct and public allegation by one of the women of an improper sex-

ual advance by Mr Clinton. Kathleen Willey, the widow of a former Democratic party luminary, was scheduled to appear on national television last night to give what was billed as a frank account of the event which she says occurred in late in 1993.

Mr Clinton has already denied that any such encounter took place and yesterday his personal lawyer, Robert Bennett, said Mr Clinton was "bewildered" by the allegation. But the account seemed more problematic for the president have been rumoured for

than the allegations of an some time, but confirmation affair with Monica Lewinsky that have enguifed the White House over the last two Unlike Ms Lewinsky,

whose allegations have not been made under oath, Ms Willey has now gone on public and legal record with her claim. Also unlike Ms Lewinsky. Ms Willey has said the encounter with the president was unwanted and unwelcome. She said she approached the president in November 1993 about the possibility of a job in the White House. She said she was in an emotional state over her and her husband's finances and claimed that. after a long conversation in private, the president aggressively kissed and groped her. She later got a post in the Clinton administration. Ms Willey's allegations

lawyers for Paula Jones, a former Arkansas state employee, to demonstrate a pattern of sexual harassment by Mr Clinton in her lawsuit against the president. They may prove valuable fuel for the work of the independent prosecutor, Kenneth Starr, who is investigating claims that Mr Clinton had an affair with Ms Lewinsky and then urged her to lie to Ms

of them emerged late on Fri-

day as part of the efforts by

Last week Ms Willey gave evidence to a grand jury investigating the alleged cover-up and she will be an important witness in any case Mr Star constructs against the president.

Jones's lawyers about it

under oath

Ms Willey also alleged efforts were made by a prominent Democratic fundraiser to lie under oath about the

alleged encounter. Mr Starr is already investigating claims that Ms Lewinsky received job offers from companies with close ties to leading Democrats in return for her silence.

The Willey testimony was one document among 700 pages of evidence given by Ms Jones's lawyers to the judge hearing the sexual harassment case. These also contained claims that other women had been induced to lie about Mr Clinton's sexual past when he was governor of Arkansas. But there was little in the form of indepen dent corroboration of those

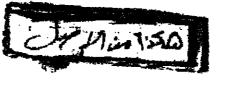
cia<u>ims.</u> Nor was there much evidence to support Ms Jones' allegation that she suffered direct loss as a result of her encounter with the president, in which she alleged she refused to perform a sexual act with him.

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FISCAL STABILITY CODE AIMS TO PROMOTE TRANSPARENCY

# Ministers move on 'giveaway' budgets

and George Parker

The government will today publish a legally binding parliamentary approval code to prevent future chancellors of the exchequer from

Gordon Brown's second budget is exercising over the public his budget will be "prudent get - will require the chan-finances." cellor to show how budget
measures comply with tary to his decision to surbenefit changes to encourage long-term objectives for the render control of interest people on benefits to return public finances. The Treasury will have to publish Bank of England, the UK projections of government borrowing and other key fiscal variables for at least 10 years into the future.

which will give legal force to measures in tomorrow's bud- impose tax rises on the betget, will require every incoming government to inflationary pressure and publish its own code, reducing the value of sterexplaining how fiscal and debt management policy will satisfy requirements of transparency, stability, Brown was "worse" than responsibility, fairness and many Conservative chancel-

The government will only indoctrinated by "Thatch-be able to change the terms erite nonsense". He is they set themselves with and education spending.

delivering unsustainable bility of fiscal policy, reas-giveaway" budgets which suring voters and the finan-rises for those earning more wreck the public finances. cial markets that the than £50,000 (\$\)
The "fiscal stability code" government has no intention be introduced. - published on the eve of of relaxing the discipline it

rates to an independent to work. central bank.

But Mr Brown's fiscal approach yesterday came under attack from Labour This year's finance bill, MPs and trade union leaders, who argued he should ter off as a means of easing

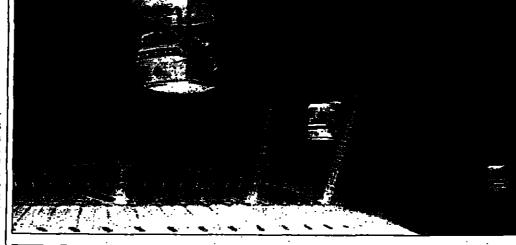
Ken Livingstone, the leftwing Labour MP, claimed Mr lors, and that he had been

of the fiscal stability codes demanding increased health John Edmonds, leader of the Mr Brown believes the GMB general union, said code will enhance the credi- high interest rates were cripthan £50,000 (\$83,500) should

Mr Brown has said that

Other measures are expected to include abandoning the controversial £50,000 ceiling on investments in the proposed Individual Savings Accounts, a crackdown on tax avoidance and a number of environmental taxes, including penalties on the use of company cars.

The Treasury yesterday refused to comment on reports that Mr Brown would also use the budget to end admission charges for national art galleries and



Cable cars to carry dome passengers

Visitors to the Millennium Dome in Greenwich, south-east London, will be able to soer over the Thames by cable car under an £8m (\$13m) project. Charles Batchelor writes. Travelling 80 metres above the tver, visitors will have spectacular views of the City of London and historic Greenwich from 23 gondolas. The scheme - promoted by Meridian Cable Cars - will use funding from a mix of private investors, loans against forecast revenues and the possible leasing of the system, to be supplied by Doppelmayr of Austria. The cars will come from another supplier

### Insurers consider '2000 bomb' clauses

Marine and aviation insurers

them from claims relating to the millennium "bomb". Underwriters at Lloyd's and companies operating in the rest of London's commer-

discussing measures to limit their exposure. Commercial insurers have several concerns. Ships and aircraft, for instance, could

cial insurance market are

ure of some computers to recognise dates after 1999. Navigational systems may may introduce exclusion fail, cargo could be wrongly clauses designed to protect delivered and refrigerated containers might stop func-

> "We are are trying to coordinate a common approach world's commercial shipping and are looking to create an fleet. exclusion clause," said Stephen Redmond, chairman of due to meet leading internathe Institute of London tional insurance brokers this Underwriters, which represents some 40 marine insur-

tiles, but we won't pay for limited cover against the strated their systems were inevitabilities." strated their systems were compliant. He said several

with other trade groups representing marine and aviation underwriters in Lloyd's and the London companies market Together, they insure 20 per cent of the

Aviation underwriters are week to try and agree draft wordings. While exclusions ers in the London companies could be in place from May,

The institute is working ers show they have taken underwriters specialising in action to ensure systems can energy and cargo insurance cope. "There would be a had begun writing exclusion questionnaire. If operators clauses, but a common forhave taken adequate measures, then we could give ket where many may be cover for defined perils such as aircraft accidents," said

> underwriters. Mr Redmond said marine and intense competition insurers were also discussing providing cover as long cult to impose restrictive

James Healey-Pratt of the

mula was essential in a mar-

insuring the same risk. He added that the London insurance market would Aviation Millennium Action have to be cautious in apply-Group, set up by London ing any exclusions. The current soft market conditions globally were making it diffilose power because of the market. "We'll pay for fortu- underwriters could provide as policy holders demon- terms on policies.

### **NEWS DIGEST**

NORTHERN IRELAND

### Blair may take personal role in peace process

Tony Blair, the UK prime minister, is set to take an increased personal role in the Northern Ireland peace process as negotiations enter their final stages. Mr. Blair is keen for the participants in the talks to reach agreement on a proposed settlement next month and for the deal to be put to a joint referendum in Northem Ireland and the Republic of Ireland in May. "As we go into the final weeks, it could be that the prime minister's role intensifies," Wir Blair's office said. The prime minister would not usurp the role of Mo Mowlam, the chief Northern Ireland minister in the UK government, or former US senator George Mitchell, the talks chair

Meanwhile, one of the four pro-British "loyalists" charged with murdering two friends - a Roman Catholic and a Protestant - in a pub in Poyntzpass in the province was yesterday found dead in his prison cell. David Keys, who was 26, hanged himself at the Maze Prison. George Parker, London

RETAILING.

### US group in supermarket deal

Inter-Act Systems Europe, a subsidiary of the US group Inter-Act, has agreed a deal with J Sainsbury, the UK's second-biggest food retailer, to introduce touch-screen klosks in its stores. Inter-Act Systems will be footing a bill of more than £10m (\$16.7m) to set up more than 1,000 kiosks in the chain's 344 stores if Initial three-month trials in 13 stores prove successful.

The kiosks will enable Sainsbury's 10m loyalty card holders to take advantage of product discounts of up to £25.50 per visit, redeem loyalty points and find recipe ideas. Eventually, the technology could offer financial services by linking with the J Sainsbury Bank, or print out suggested shopping lists based on previous repeated purchases.

Although other UK retailers such as Safeway are experimenting with interactive klosks, few are thought to be running trials as extensive as those planned by Sainsbury. Blair Jenkins, of Inter-Act Europe, said both companies anticipated that after the initial trials in May, the kiosks would be rolled out throughout the chain by the end of 1999. Peggy Hollinger, London

OBITUARY

### **Mary Bunter**

Mary Bunter, a senior sub-editor on the Financial Times, died yesterday at the age of 44, after a long illness. She had been battiling cancer for the last six years. Mary joined the FT in April 1986 as an experienced sub-editor after a career in regional newspapers in the Midlands and London. She played an important part in a period of rapid change in technology and editing structure at the newspaper. On top of her professional accomplishments, her many triends at the newspaper will remember her ready sense of humour and unfailing cheerfulness - even as she struggled with great courage against her illness. Her determination not to be beaten was demonstrated by her decision last autumn to study for a law degree at King's College, London.

### **BBC** resists mutualisation

By John Gapper, Media Editor

The BBC is resisting a suggestion that it should become a mutually owned organisation, allowing its 21m licence fee payers a vote on its board of governors and freeing the organisation

to raise new capital. The proposal, which is to be aired publicly this week, has already been considered among a range of options for the future ownership structure of the BBC by advisers to Chris Smith, the chief

minister for culture. However, the proposal has been resisted by senior managers at the BBC and is not part of government plans. It is to be suggested publicly on Friday in a booklet published by the Institute for

Public Policy Research Mutualising the BBC. which would involve ending government ownership and instead giving licence payers - through whom the corporation is funded - control

would constitute a radical alternative to the privatisation of similar state assets. Mr Smith has said he

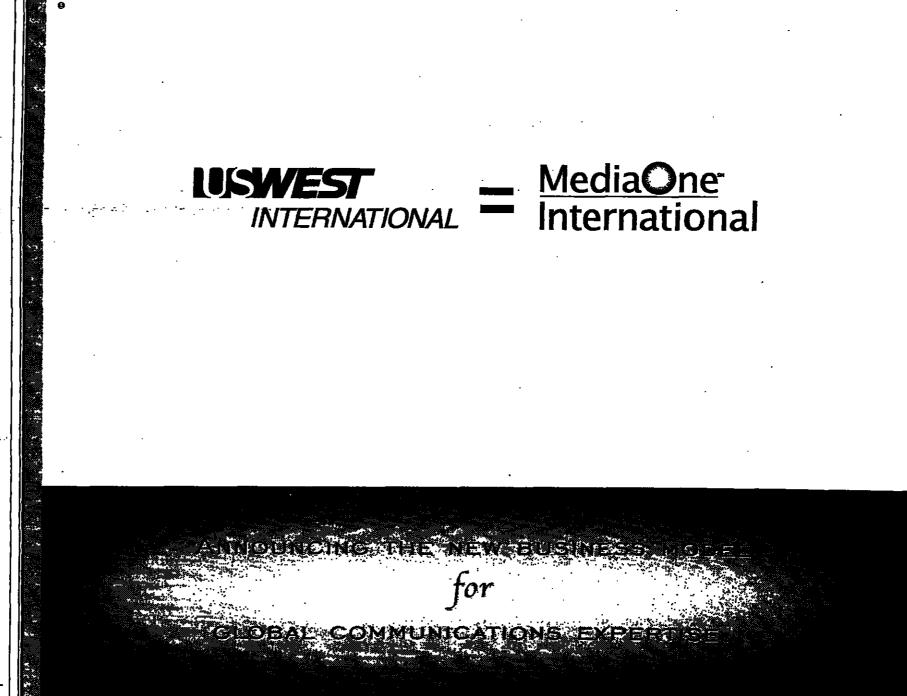
wants to reinforce the accountability of the BBC's board of governors to ensure it is not distracted by commercial ventures from a commitment to public service broadcasting.

He has also said the government will review the BBC's funding within two years. This could allow ministers to reconsider mutualisation.

City advisers are thought

to support the idea because it would allow the corporation to be removed from the public sector borrowing requirement and raise money in capital markets.

Such a move would be accompanied by safeguards to stop the BBC being forced by members into a flotation. NatWest Markets estimates the potential market value of the corporation at about £4bn (\$6.7bn), or £190 per licence fee payer.



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1998 Y610000.0

FRN Y1190137.0

NVtg FRN Pf \$0.44

**THURSDAY** 

MARCH 19

Albion 2.5p

Masthead Insurance

**TODAY** Abbey National Treasury 7%% Gtd Nts 2001 271.25 Auto Fdg No 2 Class A FRN 2003 £1944.09 Do Class B FRN 2003 £1999.57 Brunswick \$0.125 Chester Asset Ricybls No 2

Asset Bakd FFIN 2001 £1945.41 City Mortgage Rcvbls 1 Mag-Boled FRN Feb 2023 Ser 1996-2001 £39.37 Do No 2 Oct 2023 Ser Do No 3 Class A Oct 2023 Do Class B Oct 2023 267.0 Do No 4 Class A Aug 2028 Ser 1997-2001 £48.08

Do Class B Aug 2028 Ser 1997-2001 267.0 Do No 5 Class A Sep 2032 £27.58

Do Class B Sep 2032 176.59 Do No 6 Class A Mar 2029 Ser 1997-2003 247.73 Do Class B Mar 2029 Ser 1997-2003 £67.0 Crabtree 2p Daejan 19p Granada FRN 1999 £2086.46

Honda Motor 3.8% Bd 2001 Y380000.0 Honeywell \$0.28 Aldland Bank Non-Cm \$ Pf Ser A1 \$0.355 Do A2 \$0.08875

Do B1 \$0.41

Do B2 \$0.1025 NKK 5.3% Bd 1999 Y530000.0 Do 5,4% Bd 2000 Y540000.0 NTT Data 3.3% Bd 1999 Pendeford Mortgages No 1 Class A1 Mtg Bokd FRN 2037

£237.99 Do Class A2 21954.32 Do Class AS £1964.29 Do Class A4 £1969.28 Do Class A5 92011.66 Residential Mortgage Secs No 2 Class M Mtg Bckd FRN 2037 £202.41 Do Class B £267.23 Santander Fin Iss Sb Gtd FRN

\$4351.56 Smith (David S) 2.7p Tharnes Asset Global Sec No 1 Class A2 Asset Bokd FRN 2037 Do Class A3 £1974.26 Do Class B £2044.07 Thompson \$0.155

Do Sb Un Var Rate Nts

2004 \$315.58

Ushers of Trowbridge 1.95p ■ TOMORROW Chase Manhattan Sb FRN 2009

\$151.56 Daiwa Europe Bank 4% Nts 1998 Y2000000.0 Do FRN 2000 Y191165.0 Do 41/2% Callable Nts 2000 Y2250000.0 Do 41/2% Non-Callable Nts 2000

Y2250000.0 Do 5% Sb Nts 2005 Y2500000.0 Export-Import Bank of Japan 91/2% Gtd Bd 1999 \$475.0 Hongkong & Shanghai. Banking Prim Cap Und FRN (Ser 2)

Limited Inc \$0.13 Midland Int Fin Gtd FRN 1999 \$298.52 Nippon Light Metal 5.3% Bd 1998 Y530000.0 Do 5.8% Bd 2000 Y560000.0

Park Food 1.1p Royal Bank of Canada Fito Rate Db 2085 \$153.13 Spiritab FRN Sep 1998 \$153.19 Toyota Motor 51/4% Bd 1998 \$56.25 Welsh Water Utilities Fin 71/6%

Gtd Bd 2004 £71.25 **■ WEDNESDAY** 

MARCH 18 Abbey National Treasury 6%% Gtd Nts 2002 \$63.75 BPI Cap Fin Ser A FR N/Vtg Pf BTM Fin (Curacao) 6%% Gtd Bd 2003 \$68750.0

Do 71/4% Gtd Bd 2006 \$71250.0 First National Bidg Scty Fitg Rate Perm Int Brg £49.78 Flash Ser Theta Sec FRN 1999 Y324023.0 Henderson Smaller Co's Inv Tst.

Do 3.05% Bd 1998 Y305000.0 Do 3.8% Bd 2001 Y380000.0 Toray 7.2% Nts 1998 Y720000.0 Treasury 111/2% 2001/04 £5.75 Vodatone 71/2% Nts 2004

£74.79 Westpac Sec Class A Mtg Bokd FRN 2028 \$1438.37 Do Class B \$1541.56 Witan Inv 3.95p

FRIDAY MARCH 20

Abbey National Treasury Cno-Tec Lkd Gtd Nts 2006 FFr135.0 Alcan Aluminium \$0.15 American Int \$0.075 Asahi Brews 7.3% Bd 2000 Y730000.0 Exchequer 101/2% 2005 £5.25 Commercial Union 104% Gtd Bd 2002 £107.50 Dewn TII Dusk 1.4p East Rand Gold R0.65 Enron \$0,2375 Eve 2.3p Fosters Brewing A\$0.05

Free State Cons R0.75 M & G Equity Inv Tst 0.95p Do Units 0.95p Southvaal R5.70 Throomorton Tst 1.45p Vaal Reets R8.75 Watson & Philip13.1p Western Deep R4.80

UK COMPANIES

E TODAY BOARD MEETINGS: Fmals: **ASW Hidgs** Anglo Pacific

Gibbs & Dandy Gowrings Metakax Sun Life & Provincial Vanguard Medica Wellingtons

Groupe Chez Gerard III TOMORROW COMPANY MEETINGS: First Choice, The Farmers & Fletchers Livery Hall, 3, Cloth St.,

E.C., 10.30 First Leisure, Equinox, Square, W.C., 12.00 Witan Investment, Royal Horticultural Society, Vincent BOARD MEETINGS: Britax Charter

Diageo Royal Doulton SIG Wood (Arthur)

**Dorling Kindersley** 

**Dorwent Valley** 

Paterson Zechonis

■ WEDNESDAY MARCH 18 COMPANY MEETING: Ward Holdings, 82, New Cavendish Street, W., 2,30 BOARD MEETINGS:

Bostrom Rowthorne Caim Energy Cakebread Robey Canning (W) Churchill China Claremont Garments

Kingfisher Laing (John) Roseby's Vilson (Connolly) Interims:

THURSDAY MARCH 19 COMPANY MEETING: Securicor, Ironmongers Hall, Barbican, E.C., 11.00 BOARD MEETINGS:

Bavnes (Charles) Bodycote Int

To

Thorpe (FW)

Capital Corp Cattles Cobham Courtaulds Textiles Evans Halshau Fired Earth Fisher (James) Gees **Jijon** Kwik-Fit

MDIS Morrison (Wm) Supermarket National Express Telewest Comms Travis Perkins Workplace Tech

FRIDAY MARCH 20

COMPANY MEETINGS: Charlotte Square, Edinburgh, Hill & Smith, Copthorne Hotel, Merry Hill, Brierley Hill, W. Midlands, 12.00 Watson & Philip, Straintay House, Dundee Technology Park, Dundee, 12.30

BOARD MEETINGS: Portmeirlon Potterk interms: Fortnum & Mason

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estment and trade. Contact: Christopher Kelly, FT Conferences Tel: +44 171 896 2633 Fax: +44 171 896 2696

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Time: 6:00-8:00 PM Venue: PRCA, Willow House, Willow Place, London SW1P 1JH Tickets: £23.50 (incl. VAT) Contact the PRCA on: Tel-0171 283,6026 PRCA

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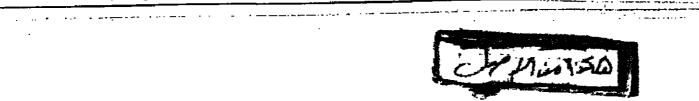
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To some Req

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YALI

### THE PROPERTY MARKET

the largest US Reits.

answers: "Maybe." He

privileges ought to be

puzzle."

argues that some of the Reit

industry's most abused tax

the Reit investor," he says.

"It's only one piece of the

Mr Zell says it is the operating efficiencies

leveloped by the largest

players that have really

attracted equity to US real

Others argue the real

transformation in the US

the creation of Kimco, an

industrial Reit, in 1990. Up

until then, largely due to

legislative requirements,

Reits were simply passive

owners of property which

parties. Thus, the fee earner

had no equity stake in the

business and the equity

owner had no managerial

A 1986 law changed all

that, but it took years for the

industry to figure out what

Kimco devised a structure

transfer its assets to a public

The 10 largest equity Reits

company without incurring

to do with the change.

allowing itself to use a

limited partnership to

contracted out portfolio

management to third

Reit market came about by

estate in the past five or six



NORMA COHEN

# One piece of a puzzle

Anyone who believes UK tax changes will spur the creation of a liquid property market will be disappointed, says Norma Cohen

Are tax breaks for the property industry the key to the creation of a large, publicly traded market in the UK? Will investors only buy property in an easily tradeable form if it carries the same tax treatment as direct ownership?

For many of the UK institutions that invest in property, the answer is a resounding "yes". After all, they can see the fantastic shift in ownership of US property from private to public hands in recent years The Real Estate Investment Trust structure - which exempts the company from corporation tax provided it pays out 95 per cent of cash earnings to shareholders as dividends - has done much to help investors overcome the illiquidity that affects direct property ownership

institutional investment. The UK property industry has been lobbying for similar tax structures in Britain, Stuart Beevor. managing director of Legal & General Properties, says: The global markets have taken off and if you want to compete in the global market you have to have a competing product."

But will tax changes

market? Some in the industry remain sceptical. First, Reit legislation was passed in 1960. More than 30 years later the sector had a market capitalisation of about \$10bn. It was not until 1992 that the fantastic growth began, reaching about \$130bn today. Moreover, the UK already

has easily tradeable pools of property - property companies. And although they nominally pay the same 31 per cent rate of corporation tax as other companies, they can limit their tax bill by applying development losses against profits.

Capital & Regional, a UK shopping centre developer, reported this week that in 1997 it paid £650,000 (\$1.1m) in tax on rents of more than £28m, hardly a sum to deter a tax-averse investor. Mr Martin Barber, chairman, argues that UK property companies could wipe out much more of their tax bill if only shareholders would drop their opposition to the use of convertible loan stock

to raise equity capital. When asked whether tax breaks are a necessity for the creation of a liquid real estate market, Sam Zell, the billionaire real estate

capital gains tax. After this Reits began to take on the characteristics of other operating companies. No longer were they simply cash flow packages, but manufacturers and service providers that needed to think about inventory, quality control, pricing, marketing and branding, just like Ford or Coca-Cola.

"Tax breaks are nice but they are not absolutely essential," argues Richard Mulley, head of European real estate at Bankers Trust in London. "If they were, the UK market would be littered with limited partnerships," he argues.

curbed. "The great fallacy is Tax transparency, Mr that tax is the main focus of Mulley says, is a red herring. "What are the real issues? Very few companies pay property tax. The real issue is that the industry has got to face up to the disciplines of the market."

Among these, Mr Mulley lists disclosure, transparency, real-time mark to market of assets and the benchmarking of

Moreover, the structure called for by UK institutions - a tax-transparent holding company that pays fees - is precisely the wrong structure for the creation of

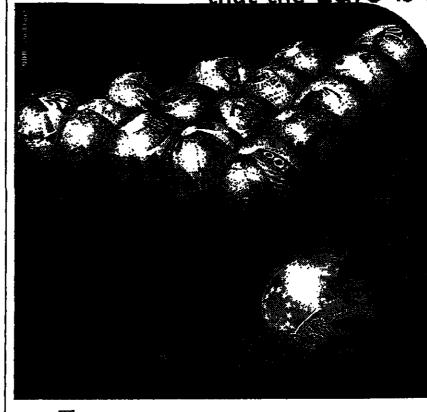
a liquid property sector. John Carrafiell, head of European realty at Morgan Stanley, says the most essential ingredient for success is the need to align the interest of property owners with its management. It has to allow the management and the assets to live together, he says. Nevertheless, UK pension fund managers have traditionally been able to invest directly in property without incurring tax and it

Clearly, it would be hard to argue tax structure does not make a difference. Mr Zell points out that the biggest investors in Reits have been US mutual funds which must pay dividends to retail investors.

will be very difficult to wean them off it, Mr Carrafiell

Arguably, given the tax structure of UK property companies, Britain could introduce the tax transparency the industry so badly wants at little cost to taxpayers. But anyone who believes this will spur the immediate creation of a liquid property market will be disappointed.

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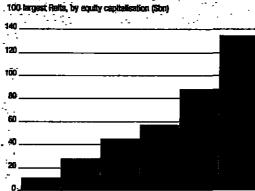
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### US Reits; a transformed industry



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Croscent Real Estate Equities	4.43
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Station DeBartolo Group	3,47
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Vornedo Reekly Trost	3.15
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·	

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# INSIDE TRACK

**PROFILE SANDY WARNER, CHAIRMAN OF J.P. MORGAN** 

# A lifelong banker with a tough line in memos

Tracy Corrigan and William Lewis on changes patchy. The bank came only 10th change over the next year or so. or the Wolf Street hard as its chairman faces at the Wall Street bank as its chairman faces the biggest challenge of his career

memo from their chairman. Sandy Warner, last month, they were shocked. Not so much by Mr Warner's statement that 5 per cent of jobs were to be axed: rumours of cuts had been widespread after a disappointing fourth quarter, exacerbated by the Asian crisis.

The bigger surprise was the candid tone and trenchant content of the memo. Mr Warner, who normally plays his cards close to his chest, was unusually frank about the predicament facing his company. "Our stock is lagging competitors. Our rate of expense growth has exceeded revenue growth in three of the past four years," he complained. We must now capture further market share and increase busi-

Mr Warner's decision to up the stakes came out of the blue. Under his guiding hand, J.P. Morgan has transformed itself in the past dozen or so years from a wholesale commercial bank into a global investment bank, buildmanagement, and respectable businesses in equities and mergers and acquisitions.

Crucially, Mr Warner has chosen to do this through organic growth, not through the bank's most successful competitors. But the cost of building the business organically has depressed returns. And the accelerated investment banking industry has upped the ante as market leaders Goldman Sachs, Merrill Lynch and Morgan Stanley Dean Witter are consolidating their position in the bulge bracket of elite global investment banks.

buy some time for the bank, remarkable achievement. which has become a frequent tar-

When employees at J.P.
Morgan, the prestigious
Wall Street bank, saw a

get of takeover rumours. "The
memo was meant to be preemptive," says Art Soter, finanget of takeover rumours. "The emptive," says Art Soter, financial services analyst at Morgan Stanley Dean Witter. "It may keep the wolves at bay for a while.

Still, coming from the head of one of Wall Street's most conservative banks, it is strong stuff. and it is clearly destabilising." "That is the chief executive saving: 'Hey guys, I want you all to the need to improve J.P. Morfeel the pressure," says Walter Gubert, Morgan's global head of investment banking.

J.P. Morgan, but not close col- while retaining our set of values 'If you can't ... get into the leadership group, you may have to get out. The firm is

leagues of Mr Warner. They and a return on equity which direct and see the letter as typical of his management style. "He takes a scientific approach to management, lays out the facts ing dominant positions in fixed and what needs to be done ratioincome, derivatives and fund nally," says one executive who knows him well.

Mr Warner says of J.P. Morgan's position: "If you can't ... get into the leadership group, you may have to get out. The firm is strong enough to pick and headline-grabbing mergers that choose, shifting and redeploying have been the staple of the resources where opportunities

J.P. Morgan has come a long way. Last year, it ranked fourth in US bond underwriting and sevpace of consolidation in the enth in global mergers and acquisitions, according to Securities Data, which tracks deals. "They were not in the league

tables at all 10 years ago," notes Robert Salomon, founder of STI cator. He is open. He is an Management in Connecticut. Now they are running fourth. Mr Warner's sharp words may fifth or sixth. That is a pretty

The record, though, has been

the higher-margin businesses it has been struggling to penetrate.

They just got ahead of themselves, shouting to the outside world that they were doing better than they actually were," says the head of a rival investment bank. "They would have been better advised to keep a lower profile and not let us see them coming. Now the whole world is hearing about their difficulties

Mr Warner, while open about gan's financial performance, defends his track record. "If someone had told us 10 years ago The tough tone of the memo that we could have this momensurprised competitors and staff at turn and this set of capabilities,

now strong enough to pick and choose, shifting and redeploying resources'

describe his style as open and never dipped below 13 per cent, I would have taken that in a heart-Still, his new push towards the

bulge bracket represents possibly the biggest challenge of his career. "He is a lifelong Morgan banker, so he is a product of the Morgan culture," says Mr Soter. "But at the same time he is trying to be an agent of change. It is not drastic change, but The wants to make the bank] a tougher, more feisty company." Mr Warner appears confident

his bank has what it takes. "On any day, on any transaction, we are competitive with the best in the world." According to Mr Gubert, Mr

Warner "combines a passion for winning, which is contagious. with a very down-to-earth approach. He is a great communiembracer, though not every deci-sion is made through discussion." Peter Hancock, Morgan's global head of fixed income and credit, believes there will be a "big

has climbed up to cruising altihave been using a lot of fuel. [But now] efficiency is greatly improved." It is too early to tell whether Mr Warner can propel J.P. Morgan into the select club of elite global investment banks. yet, "I think that J.P. Morgan can do it. They can turn it around," says a senior M&A banker at a

leading US investment bank. "The question is: can they continue to build organically, given the rapid process of change elsewhere in the financial services industry? They have to go faster and there are a lot of people who might be interested in a merger.' Many have speculated, for instance, on a union with Deutsche Morgan Grenfell, the Ger-man investment bank.

Mr Michael Lipper, financial analyst at Lipper Analytical believes Mr Warner could bring off his ambition. Paradoxically, the end of the bull market, if it comes, could help, "If we have a downmarket soon enough or long enough Morgan's financial strength should help them come out of the other side in better shape than many competitors." But how much time does Mr

Warner have? Not much. "We are witnessing the endgame in this sector of global wholesale financial services," says an analyst at a rival bank. He believes there are about 10 contenders. But only two or three will join Goldman Sachs, Merrill Lynch and Morgan Stanley Dean Witter as the "big winners", he says, J.P. Morgan has "a prestigious name and reputation, and a wonderful culture of teamwork and client focus, but time is running short and their market share still doesn't place them in the leadership category".

The stakes are higher than ever, and competition increasingly fierce. "The two leading contenders [for the bulge bracket] are J.P. Morgan and Chase," says Mr Soter, "But they both have big holes to fill." Mr Warner's memo could be the first



ESSENTIAL GUIDE TO SANDY WARNER

Sandy Warner - who is never called by his given name, Douglas - has spent his career with the House of Morgan. The Cincinnati, Ohio-born banker joined the company in 1968, after graduating from Yale University, and completed the bank's

management training programme. He held a range of lobs before being posted in 1983 to London. where he became general manager In 1986. In 1987, he returned to New York to take charge of corporate finance in the Americas and later

worldwide. He served as president and chief operating officer under Sir Dennis Weatherstone from 1990 and became chairman, president and chief executive officer on January 1,

One of his first actions was to set up a "house arrest team" of executives, who are holed up in his offices on Wall Street for two days at a time for brain-storming sessions, and not allowed to leave, even for

According to one analyst, Mr

Warner, now 52, is well trained for the job in hand, having spent his entire career watching JP Morgan transform itself into a global investment bank.

His positions outside the company include directorships of Anheuser-Busch Companies and General Electric. Mr Warner is also chairman of the board of managers of the Memorial Sloan-Kettering Cancer Center in New York and a

THE PRINCIPLE that clears the vision

The euro is on its way. On the first weekend

regions, it offers local expertise in a global

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DG BANK

### MANAGEMENT STRESS CONTROL

### A hands-on approach

Employees are being offered massage to help them cope with the strains of office life, says Vîrginia Matthews

come and Railtrack are among the UK companies that are turning to a 700-year-old form of (fullyclothed) Japanese massage. practised on-site by qualified professionals, to knead away the stresses and strains of the working day.

Other organisations, including a number of government departments, offer their employees aromatherapy, reflexology and t'ai chi chu an - an ancient Chinese martial art. In the case of the Foreign Office's Lifestyle Centre opposite Buckingham Palace this is used to help dilute the tensions of high-level international networking.

Meanwhile, Coopers & Lybrand believes that it leads the City accountancy pack with a popular, if inter sive, two-day physical and psychological assessment programme that invariably leads to suggestions of less work and alcohol and more

What all these employers share is the belief that the physical and mental wellbeing of the workforce is too important an issue to be left to employees themselves; one which deserves a place in the office, rather than being relegated to lunchtime or after work.

While a small number of companies expect their staff to pay for any treatments. most will offer subsidies. Paul Hancock, director of

Massageworks – a consultancy specialising in workbased Anma massage therapy - believes that a growing number of companies are

SmithKline Beecham, overcoming their inhibitions that it can alleviate the sort Tesco, Glazo Well- to take what he calls "a of stress-related illness that more proactive role in their workers' health".

Japanese technique involving finger pressure - is now becoming a firm favourite in the City. NatWest, KPMG and PR firm Burson Marsteller are among its devotees. Between them, they claim that it compats stress. muscle fatigue, headaches, lack of concentration, anxiety attacks and even insomnia. Practitioners concentrate on more than 60 acupressure points - identical to those used by the acupuncturist's needles - as well as specific trigger points in the neck, shoulders, arms and back.

Anma massage involves no oils or perfumes and does

FRANKLY SIMPSON YOU WERE MORE USE TO US WHEN YOU WERE STRESSED



remove any clothes, making it "an ideal addition to the working day," according to Mr Hancock, who believes costs British industry dear. Rather than relaxing the Anma massage, closely patient to the point of sleep, linked to shiatsu - another Anma is designed to refresh and energise; allowing an emplovée to return immediately to work.

Mr Hancock notes that while those on the middle rung of the corporate ladder are always keen to have a go at massage, highly paid execntives "tend to see the desire for a massage as a form of weakness and are usually the last to attend". On-site Anma massage,

which involves sitting in a specially adapted chair, takes between 20 and 30 minutes and costs as little as £140 per day for a maximum of 12 half-hour or 16 20-minute sessions.

"Only a few years ago, employers would laugh and nudge each other when we suggested offering on-site massage," says Mr Hancock "Today, it is seen as far more mainstream and we ourselves get approached. most recently by BT and Price Waterhouse, both of whom have booked a demon-

At Coopers & Lybrand, the attitude to employee health is that "your health is as important to us as it is to you", in the words of partner David Seddon, a psychologist whose role is to look after human resources at the firm. "Not only do we have an on-site medical doctor, who gives people their preholiday jabs and treats them for flu, but we are also taking an active role in making strategy stronger and class."

not require the patient to more proactive," he says. Coopers has a one-year waiting list for volunteers prepared to attend a two-day course on physical and mental health. The course is preceded by a full-scale medical described by Mr Seddon as akin to a pilot's medical, in which the cardiovascular system is reviewed, as well as a psychological analysis.

During the two days, staff are taught how to balance their physical and psychological needs with a new "personal lifestyle strategy". Among the strategies that Coopers have come up with are no weekend work, restricting evening work to two nights a week, taking a one-mile walk every day, reducing alcohol intake and giving up smoking.

"We encourage people to make small changes to their lives, such as drinking two glasses of wine each evening rather than saving it all up for a Friday night binge, as well as taking exercise three times a week rather than wearing themselves out once a month.

While Coopers rather frowns on alternative therapy "we are very sciencebased," says Mr Seddon, firmly - the Foreign Office is considering adding acupuncture, posture control and class-based yoga to its therapy menu.

"Smoking and drinking too much are very common in the Foreign Office," says the centre's deputy manager. Matthew Wyatt, "and we will basically consider anything that helps them to quit". He adds: "Our most popular sessions are far more basic than acupuncture or massage though; what gets really booked up, by both sexes, is the Legs, our occupational health Bums and Tims' exercise

### LATER THIS WEEK

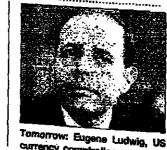
TOMORROW Technology: Vanessa Houlder continues our Machines and Medicine series with a look at implants and new materials.

Plus: International People;

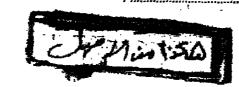
Business and the Law.

WEDNESDAY Technology: The humble pager grows up and adds extra features. **Management** John Kay asks, what is rational behaviour? THURSDAY

part of Robert Corzine's series on the transformation of Royal Dutch/Shell\_ FRIDAY Management: Doing Business in China - how perseverance can pay off Corporate culture: Second | for western companies



currency comptroller, profiled



MANAGEMENT SOCIETE GENERALE DE SURVEILLANCE

# Testing times for the chief inspector

William Hall on the troubles facing Elisabeth Salina Amorini, chairman of SGS and Switzerland's most successful businesswoman

testing and inspection company. profits. By contrast, since 1990 has a problem. Her reputation as Switzerland's only really successful businesswoman in a largely male world is under threat - and she has only herself to blame.

In 1989, at the age of 34, she led a shareholder revolt to oust Patrick Rich, the company's British chief executive, and most of the board, including three of Switzer-land's most powerful business networkers: a former chairman of Union Bank of Switzerland, a former governor of the Swiss National Bank, and the then president of the Swiss Bankers Association.

Mrs Amorini, granddaughter of one of the founders, took over as chahman, scrapped the previous diversification strategy and collegially by handed the running of the company to Claude Goldberg, an SGS all members of the

employee of 45 years standing. The palace revolution was hailed variously as a welcome awakening of shareholder activism in a country where the big banks had traditionally had an of everything from shoes to unhealthy level of corporate nuclear power plants. However, influence, and a rejuvenation of a allegations last year that one of 111-year-old company that was in its subsidiaries had been named danger of dissipating its world- in a Pakistani corruption scandal class franchise through ill-judged

diversifications. Mrs Amorini started well. She has raised SGS's dividend every year since she took over, boosted fight to change the Swiss legislation hindering share buy-backs. its fell in 1997 for the first time in Fischer, head of SGS's governseven years, and SGS was the ment contracts business, who field. worst performing share in the had been with the company for Swiss Market Index of Swiss over 30 years, has resigned and

Elisabeth Salma Amorini, blue-chips last year and this. a substantial commission to the wealthy chairman of A number of things have gone Société Générale de wrong. In the 1980s SGS trebled Surveillance, the world's biggest its fee income and quadrupled its

grown by just under 60 per cent while net profits are up 26 per cent. More recently, concerns over SGS's sluggish growth have been compounded by questions about the company's stewardship responded to the problem. of its most valuable corporate asset: its reputation for honesty and wrongs of the Pakistan saga and integrity.

the quality and quantity of grain has highlighted weaknesses in shipments from France, has SGS's top management, and in grown into the most powerful organisation of its kind by offering impartial and independent Cotecna in 1995 and the fact that advice to importers and exporters

Decisions are taken

group executive

board have raised questions about its

business ethics. SGS was bired to curb customs fraud in Pakistan. But it has since emerged that it paid miloperating margins and led the lions of dollars into offshore bank accounts controlled by the husband of Benazir Bhutto, Pakis-But SGS and Mrs Amorini have tan's former prime minister, to since lost their star rating. Prof- secure the contract. Hans

Cotecna, the subsidiary at the centre of the Pakistani allegations, has been sold.

SGS confirmed in December that it had paid a Geneva lawyer "start up" the Pakistani contract and that it had identified "certain irregularities" in its procedures. SGS does not believe that it engaged in any criminal wrongdoings but Mrs Amorini is very conscious of the damage such stories can do to SGS's reputation. Analysts have applauded the swiftness with which she However, whatever the rights

- and SGS's side of the story has SGS, which started by checking not yet been properly heard - it particular Mrs Amorini. She was chairman of SGS when it bought it took an investigation in Pakistan to alert SGS to problems in its own management structure raises questions about Mrs Amorini's leadership.

Since she became chairman in 1989, almost all the senior management team have either left or retired. SGS has had two chief executives - the last survived little more than a year - and since 1994 Mrs Amorini has effectively done the job herself, although she does not regard herself as a chief executive.

rigid lines of reporting, decisions are taken collegially by all memboard, of which Mrs Amorini is president. "My voice is not higher or lower than the others," she has said. This decentralised management style is designed to encourage a more entrepreneurial spirit among SGS's near 40,000-strong workforce, all but 400 of whom are based in the

However, it has its drawbacks. SGS has been slow to sort out the



Amorini: SGS might benefit from a full-time chief executive

Rather than have a CEO with can harness the power of its unrivalled network in more than 140 countries to achieve critical mass bers of the group executive in faster-growing, higher quality inspection businesses, such as environmental and non-

destructive testing. The problems in Pakistan, combined with the loss of other highprofile government inspection contracts, suggest that SGS has become overly reliant on highmargin but low-quality government contracts in politically

sensitive parts of the world.

underperforming parts of its decision last week to renew business, such as US loss adjust- SGS's pre-shipment inspection ing, and it has yet to prove that it contract for another year suggests that the Pakistani allegations have not yet seriously tarnished SGS's independent image. Nevertheless, nearly a decade after Mrs Amorini seized power, there is a growing feeling abroad that SGS's recent problems and sluggish growth might benefit from the attention of a full-time chief executive. A group executive board presided over by the company chairman, who also happens to be one of the biggest shareholders, is not the best recipe for the management of what

The Philippine government's should be a growth business.

mail less attractive. The fault in this logic was pointed out by Jason Catlett, founder of Junkbusters.com, a to combating the rising tide of spam. Dr Catlett, formerly a its British newspaper titles. professor at the University of

Because a spammer can send order to maintain our low fares | can be below one hundredth of 1 per cent - leaving the remaining 99.99 per cent of recipients angry leaving the spammer better off

This is partly because the market price of e-mail addresses "harvested" from the web or

TIM JACKSON

### Spammer in the works

A new US approach to curbing nuisance e-mail raises big issues but makes good sense

To people who think of California as the source of the most weird and wonderful trends of the late 20th century, the news that members of the state's legislature have introduced a bill on "spam" – unsolicited junk e-mail – will come as no surprise. But the bill raises some fundamental questions which should concern every internet user.

At first sight, spam hardly seems a serious enough issue to prompt a grab for the statute book. Many internet users receive half a dozen messages day, wearyingly familiar in their offers of get-rich-quick schemes, or their guarantees to reveal the secrets of how to promote a web site successfully. It rarely takes more than a second to identify each message for what it is, and rarely more than a couple of keystrokes to consign it to

electronic oblivion. By comparison, the physical funk that is carried in the mail to our letter-boxes every day is a great deal more inconvenient. I estimate that half my daily postbag is rubbish, which requires effort and space to throw away.

Until recently, I believed that spam, like standard junk mail, would wither away as technology improved. Since junk is by definition mail that you do not want to receive and have no intention of responding to, it is also mail that is a waste of money to the sender. I used to think that improving database technology and targeting would make the sending of unsolicited

lobby group and web site devoted now it is "Fly The Pint". tion of duty free next year." says aircraft. "I've no doubt that Passengers on Ryanair. Charlie Clifton, Ryanair's directive Irish low-fares airline, might tor of ground operations.

aircraft. "I've no doubt that before long all our aircraft will be branded," says Mr Clifton low for the normal rules of economics to apply.

than not sending out the mailing.

gathered with the address owner's consent. But it is also because of an economic externality. Since spammers routinely send out mail using false reply addresses, they never suffer the costs of the annoyance

As a result, a mailing can have a clearly negative effect on the general happiness - causing many times more pain among those who do not want it than pleasure among those who do without this net loss appearing in

the accounts of the sender. Hence, perhaps, the Californian legislation. Instead of trying to tackle the spammers directly for instance by requiring them, as earlier attempts at legislation have done, to tag their mail clearly as advertisements, or to provide a real return address on pain of criminal prosecution the bill attacks the problem from a point of view of civil liability.

It allows internet service providers (ISPs) to establish their own policies on junk mail, and gives them legal backing in suing mailers who contravene these policies. So a spammer who defies the rules of an ISP by using one of its addresses to send outgoing junk, or by sending incoming junk to a list of its subscribers, could be liable for \$50 per violation or up to \$15,000 a day. This may sound excessive. But it is worth remembering that ISPs have suffered measurable economic harm from spammers. Some have found their servers overwhelmed with incoming junk messages, making it impossible to carry normal traffic to and from their customers.

Others have found that the bogus use of addresses on their systems has caused them to be blacklisted so that their honest customers are unable to exchange mail with parts of the outside world. Even AOL, the world's biggest online service, carries a heavy daily overhead of unsolicited traffic that costs it money without bringing in

compensating revenue.

Generally, it makes less sense to write special laws for the internet than to apply and extend legislation governing pre-cyberspace activity to the new forms of communication made possible by the net. So California's state government will be wise to ask tough questions about why the new rights and liabilities defined in this bill cannot be achieved using existing legislation. But the approach of using the civil, rather than the criminal, law to do away with this kind of nuisance is one that makes perfect sense.

tim.jackson@pobox.com



**MARKETING FLYING ADS** 

### Giant billboards in the skies

Kieran Cooke on Ryanair's decision to carry advertising on the outside of its aircraft An advertiser pays between professor at the University of £120,000 and £140,000 to place the Sydney and a researcher at

Forcet "Fly The Flag" - sources in advance of the the Irish low-fares airline, might tor of ground operations. be surprised to find they are sitting inside a giant glass of beer.

Ryanair is painting its 20 airlatest recruit to the airborne offer advertisers such a service. advertising market is Kilkenny drinks group. One of Ryanair's B737s has been painted to resemcraft's nose.

rate advertising is another step

A small number of aircraft in

craft into flying billboards. The it is the first airline in Europe to Kilkenny is the third brand to structure," says Mr Clifton. beer, a brand in the Guinness take its message to the skies on a Ryanair jet. Jaguar cars has used

ble a pint of Kilkenny, a frothy 1996, with one of the Irish Britain and is moving into the head of beer covering the air- airline's aircraft painted British wider European market. The air-"Using our aircraft for corpo- jaguar on its side. News Interna- gers last year, operates on 26 in our search for new revenue Ryanair to advertise two of Europe.

oli- company colours on a Ryanair Ryanair also plans to offer adverthe US have been branded with tisers display space on aircraft corporate messages. Ryanair says head rests and on staff uniforms. | out a message to 1m addresses "Such ad revenues are vital in for \$100, (£63) the response rate

Ryanair has built its success on "low fares, no frills" flights on at their wasted time - and still Ryanair for advertising since late routes between Ireland and racing green, the silver company line, which carried 5m passentional, the media group, uses scheduled routes throughout from news groups is so far below

### **CONTRACTS & TENDERS**

### Invest in Romania!

### **Advertising release** for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest 6, Stavropoleos Street, sector 3 is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997a 67.515 % of the issued share capital of MTS SA Targa Securiesc.

- Registered Office: Târga Secuiesc, Str. Fabricii nr.7, jud Covasna.

  Fiscal Code: R 557010.

  Registration no. at Commercial Register Office: J14/7/1991.

  Issued stock capital, according to the latest records at the Commercial Register Office: 28,885,300 thousand, ROL.

  Turnover in 1996: 27,547,322 thousand, ROL.

  Net profit in 1996: 419,313 thousand, ROL.

  Main scope of activity: metallic construction and metal product industry

Total number of shares at a nominal value of 25,000 ROL each: 1,155,412. The share ownership structure is as follows:

O State Ownership Fund
O Financial Investment Company
O Share owners through mass privatization
O Shares assigned through public offer
O PAS

The offer for the 67.515% issued share capital, i.e. 789,086 shares is 8,432,730 USD.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, SOF-RDA BUSINESS CENTRE, OFFERS DIVISION of the international Relations Department, Bucureşti, Str. STAVROPOLEOS, nr.6. phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs., till the deadline 20 March 1998 at a price of 1,100 USD for foreign citizens or legal emities or ROL equivalent at National Bank exchange rate applicable on the PRESENTATION FILE purchase date for Romanian citizens and legal emities.

This sum has to be transferred in advance to the State Ownership Fund accounts: no. 2511.0000000242.3.00008 in USD at the Romanian Bank for Foreign Trade (BANCOREX) for foreign investors, or no. 2511.0018.0000607 in ROL, at the Romanian Bank for Development-Bank for Foreign Trade (BRD-SMB) for Romanian investors. The minimal environmental conditions accepted for MTS SA Targe Securiesc are included in the company PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of: a copy of the payment order for the presentation file;
identity card (or passport for foreign citizens);
Certificate from the hadding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. 1,957,890 thousand ROL or 252,982 USD as follows: Romanian citizens or legal entities may pay cash to the State Ownership Fund, to account to 2511.009,809,00313 at the Romanian Bank for Development - Bucharest Branch to the State Ownership Fund, to account to . (BRD-SMB); foreign citizens or legal entities may pay cash, to the State Ownership Fund, to account no. (BRD-SMB); foreign citizens or legal entities may pay cash, to the State Ownership Fund, to account no. (BRD-SMB); foreign citizens or legal entities may pay cash, to the State Ownership Fund, to account no. (BRD-SMB); foreign citizens or legal entities may pay cash, to the State Ownership Fund, to account no. (BRD-SMB); foreign citizens or legal entities may pay cash to the State Ownership Fund, to account no. (BRD-SMB); foreign citizens or legal entities may pay cash to the State Ownership Fund, to account no. (BRD-SMB); foreign citizens or legal entities may pay cash to the State Ownership Fund, to account no. (BRD-SMB); foreign citizens or legal entities may pay cash to the State Ownership Fund, to account no.

Bidders should submit the PURCHASING OFFER and the documents stipulated in the section C of the PRESENTATION FILE to the State Ownership Fund, Offers Division at the above mentioned address, in a scaled envelope, prior to 30 March, 1998, 16.00 hrs. (from deadline for submission).

### **CONTRACTS & TENDERS**

### Invest in Romania:

### Advertising release for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6, Stavropoleos Street sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997a 50.995 % of the issued share capital of SC FIBREX SA Săvinești.

- ☐ Registered Office: Săvinești, Str. Uzinei nr.1, jud Neamț.
- D Fiscal Code: R2614597.
- ☐ Registration no. at Commercial Register Office: J27/00025/1991.
  ☐ Issued stock capital, according to the latest records at the Commercial Register Office: 193,329.300 million, ROL.
  ☐ Turnover in 1996: 235.040.767 million, ROL.
- Net profit in 1996; 2,954,995 thousand, ROL.
- ☐ Main scope of activity: production and distribution of polyamide fiber

Total number of shares at a nominal value of 25,000 ROL each: 7,733,172. The share ownership structure is as follows:

O State Ownership Fund
O Financial Investment Company Moldova
O Share owners through mass privatization
O Shares assigned to the manager
O Shares assigned through public offer



The offer for the 50.995% issued share capital, i.e. 349,596 shares is 37,596,676 USD. The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, SOF-RDA BUSINESS CENTRE OFFERS DIVISION of the International Relations Department, Bucuresti, Str. STAVROPOLEOS, nr.6, phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs. till the deadline 03 April 1998, at a price of chase date for Romanian citizens or legal emities or ROL equivalent at National Bank exchange rate applicable on the PRESENTATION FILE pur-

This sum has to be transferred in advance to the State Ownership Fund accounts; no. 2511,0000000242,3,00008 in USD at the Romanian Bank for Foreign Trade (BANCOREX) for foreign investors, or no. 2511,0018,0000607 in ROL, at the Romanian Bank for Development-Bucharest Branch (BRD-SMB) for Romanian investors.

The minimal environmental conditions accepted for SC FIBREX SA Savinesti are included in the company PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:

a copy of the payment order for the presentation file;
identity card (or passport for foreign citizens);
Cartificate from the bidding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. 8,731.076 million ROL or 1,127,900 USD as follows: Romanian chizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511.009.809.00313 at the Romanian Bank for Development - Bucharest Branch (BRD-SMB); foreign citizens or legal entities may pay cash, to the State Ownership Fund, to account no. 2511.0000000242.3.00008 in USD, at the Romanian Bank for Foreign Trade (BANCOREX); alternatively the bidders may instruct the bank where they hold their account to release an unconditional bank guarantee valid for 60 days. Bidders should submit the PURCHASING OFFER and the documents stipulated in the section C of the PRESENTATION FILE to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to 13 April, 1998, 16.90 km. (from deadline for submission).

## Universities spot a business opportunity

Partnership is the way forward for corporate learning writes John Authers

12

Record numbers of US employers are forming strategic alliances with business schools to ensure that executive training is relevant and

The trend is revealed in a survey of 100 deans of "corporate" universities - training institutes run by companies for their staff. The survey was sponsored by the AACSB, the accrediting body for US business schools, and carried out by Corporate University Xchange, a New York-based con-

Most importantly, it suggests ness schools should treat the rise of corporate universities as an opportunity rather than a risk.

Joseph Alutto, dean of Ohio State University's business school, one of the largest US public business schools, says: "The potential impact of corporate universities is very broad. There are many different forms which it have links with executive educacould take. One is the develop- tion units, with another 15 per ment of an MBA programme cent planning to form such a link which is company specific. within the next two years. Another is an industry-specific MBA programme, as is often seen

This would involve quite a desire to become a profit centre

to the title "father of man-

agement". But Frederick Wins-

low Taylor would be one of the

He was one of the first to mea-

**POTTED GURUS** FREDERICK WINSLOW TAYLOR

It is doubtful that any the way he systematised work individual could be claim

individual could lay claim and its management.

change in direction for US business schools, which have traditionally followed a path of encouraging generalists.

Some corporate universities are attempting to develop degreeawarding powers themselves. But the survey suggests a decisive shift in corporate universities' thinking towards developing joint degree programmes with institutions of higher education, according to Jeanne Meister. chief executive of Corporate University Xchange.

Forty per cent of corporate unihigher education institutions, mostly in business administration, computer science, engineer-

The interest in alliances that deans of conventional busi- includes education establishments at all levels. Almost two thirds of corporate universities have an alliance with an undergraduate college offering threeor four-year courses. By the end of next year, this number is planned to rise to 78 per cent.

A further 32 per cent of the corporate universities surveyed

Alliances underpin a new emphasis in companies' policies, according to Ms Meister. "The

Taylor, born into a Philadel-

phia Quaker family, always defended his work by claiming he

was trying to improve the work-

porate universities". If they are to be self-funded, they need to explore new ventures with outsiders to supplement their corpo-

than embark on the much more expensive route of gaining degree-awarding powers in their own right.

The degree route has been followed by Arthur D Little, the consulting firm with its school of management in Boston, but by few others.

The emphasis on profitability has made corporate universities much tougher customers, says Ms Meister.

nearby school which they knew. important factors listed in this responsiveness", "technology for deans said they were interested Tel. 212 213 2828.

appreciated by many of those

reduced to exhaustion hauling

pig iron in his experiments

designed to test the limits of

was helping the worker was not more efficient production

The man who made production fall into line

human output.

porate deans' list of priorities is a desire that their partner should "share risks".

Therefore, the trend is likely to rate education budget, rather have quite an impact on the way their conventional allies organise themselves, even if corporate universities represent more of an opportunity than a threat. Corporate universities' internal

practices are also changing. One important frend, which could contain costs, is the experimentation with technology.

The greatest interest is in using corporate intranets for learning programmes; these will account for more than a third of While they once settled for a all training delivered by technology at corporate universities.

Beyond corporate intranets, in survey included "flexibility and another two years corporate

Taylor did not invent the mov-

ing assembly line. But Henry

Ford's construction of a produc-tion line for his Model T Ford in

1913, adopting scientific manage-

Half of the deans questioned based universities, but this is due to rise to 62 per cept.

the Netherlands and Venezuela.

mediums that could grow in importance.

have alliances with distance learning vendors, a figure due to rise to 78 per cent. Only 16 per cent have links with internet-

The survey covered 90 deans of corporate universities has so far proved most popular. It also included a further 10 representatives of corporate institutions in South Africa, France, Germany, The 1998 Survey of Corporate University Future Directions, was conducted by Corporate University Xchange, 381 Park Avenue South, Suite 713. New York NY 10016.

well have looked on the expand-

ing use of call centres, where

employees are closely monitored

and timed, with approval.

Richard Donkin

versities plan to grant degrees in for the organisation has surfaced learning", and "performance in virtual reality and interactive partnership with accredited among a growing number of cormeasures". Also high on the cordistance learning as the two

10 for either prestige or compensation also ranked in the top 10 for quality of life - the Boston Consulting Group.

The survey consulted 800 MBA students from 24 schools. Kennedy: www.kennedyinfo.com Thought

from the US, where the concept

for food

Paris may not seem the ideal place to study agriculture, but next month the Paris business school Essec will launch an MBA programme for managers in the international agri-food business.

Never mind the

Money is not everything for MBA

at America's top business schools do

prestigious firms are the best places

conducted by Kennedy Information,

of Fitzwilliam, New Hampshire, which

graduates who want to join management consultancies. Students

not necessarily think the most

to work, according to a survey

specialises in information on the

McKinsey & Co. for example,

ranked top in both the prestige and

compensation categories but came

only 55th out of 60 in the quality of

consultancies that ranked in the top

ife category. Only one out of the

management consulting and

executive search professions.

ranking, feel

the quality

The 11-month course has been developed in conjunction with leading agri-food groups such as Nestlé, Monoprix, Yoplait and Mars. It will begin in September.

In April 1997 Essec became the first business school in Europe to be accredited by the US accreditation body, the AACSB.

### Upward and outward

Heniey management college, in the UK, is to run a series of free seminars on personal development at its new London campus in Regent's Park. The first, on Monday April 20, will be on stress management. Future seminars will include leadership and

Email: lyndseym@henleymc.ac.uk Leadership and survival will be high on the agenda on the Challenging Leadership course run by the Association of MBAs in conjunction with Outward Bound

Professional in the UK. The workshop, from April 17 to 19, will include time in the classroom and time outdoors, although the association insists that the programme has not been designed to challenge levels of fitness. Email: p.glason@mba.org.uk

### Spanish warm-up

To persuade more non-Spanish speaking businesspeople to become involved with Latin American businesses and to study for an MBA, the instituto Empresa in Madrid will provide free "warm-up" Spanish essons for new students on its nternational MBA programme.

The programme is taught in English for the first two terms and then Spanish for the remaining 15 months. The preliminary language courses start in September and the MBA classes in October.

Email: miguel.costa@ie.ucm.es

#### Chicago moves

Chicago business school's deputy dean Robin Hogarth is to return to teaching from July. Prof Hogarth is in charge of the full-time MBA programme at Chicago.

His position will be filled by Mark Zmijewski, one of the two other deputy deans at the school who is currently in charge of the part-time MBA programmes. He will be replaced by Gary Eppen, who has been on the faculty for 34 years. Chicago: www-gsb.uchicago.edu

### Thatcher's chair

The Judge Institute of management studies in Cambridge has received final approval to set up a chair of enterprise studies with £2m from the Margaret Thatcher Foundation.

The donation was approved by the university's various bodies without dissent, in spite of concerns that some academics would vote against accepting money from such a controverslat UK prime minister Judge Institute: UK, (0)1223 339700

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London Tel: 44 171 873 4673 Fax: 44 171 873 3950



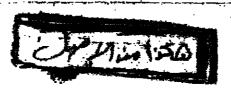
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### Simple case of mix and match

What has the personal computer industry got to teach the world of lift trucks? The answer is a lot, according to Hans-Peter Schmohl, chairman of Germany's Jungheinrich, the world's fourth biggest lift truck maker.

While the two sectors appear very different, both sets of machines can be regarded as commodities. Computers are used to handle information in the office. Lift trucks do the same with goods in the factory or distribution yard.

Apart from some specialist types, one personal computer looks and feels to most users just like any other. Much the same is true of lift trucks - basic principles of which have changed little over the past 40 years.

What differentiates competing products in both industries is not so much specific manufacturing features but the "service" aspects. These involve software and telephone back-up for computers, and rental terms and spare parts for trucks.

Because of its special characteristics, the computer sector is ahead of most other industries in moving towards "virtual" manufacturing. Much of production is left to outsiders. The biggest computer suppliers concentrate instead on product development, component purchasing, logistics and customer support.

Mr Schmohl says the lift truck industry is on much the same path. It is a highly competitive sector in which about 20 large companies worldwide battle for shares in a market worth some DM30bn (£10bn) a year.

He believes the day may not be far away when the biggest lift truck makers leave manufacturing to a relatively small number of highly efficient and flexible factories, some of which may be operated by competing lift truck

suppliers, or in joint ventures. The plants would rely on subcontractors for most of their with Linde, another German another big lift truck business, basic parts. Lift truck companies company, which is Europe's big. BT's US-based Raymond division heavily than they do now on the "downstream" aspects away from rich, which is number two in the shop floor. These include ron- Europe. At present the factory tine maintenance or even, as is makes only engines, though the happening in some parts of the partnership could be extended to industry, supply of drivers hired out daily to go with a rented plete trucks. In the US, where



probably other lift truck compa- ways to boost sales beyond ship- a better position than most lift nies, will become more of a service company rather than one whose primary business is to make things," says Mr Schmohl. Jungheinrich, with sales last year of DM2.3bn, is ahead of most other lift truck makers in these trends. It already makes some lift trucks for sale in Europe for

ping from Europe or extending Jungheinrich's small plant in Virginia. He is keen on a joint venture in which an existing US lift truck maker might agree to make Jungheinrich trucks on its

Komatsu, its Japanese rival, a collaboration with BT Indus-

The day may not be far away when the biggest lift truck makers leave manufacturing to a relatively small number

of highly efficient and flexible factories

using the same highly flexible tries, a big Swedish lift truck

production line in the UK as it maker that has two plants in uses to make its own trucks. It has a joint manufacturing facturing philosophy is closer to venture in the Czech Republic Jungheinrich's than probably

biggest competitor to Jungheinmake other parts or even com-Juneheinrich has a small market "In the next five years we, and share, Mr Schmohl is considering truck makers to benefit from the shift to "virtual" manufacturing because of its efforts to revamp its production processes. It has spent DM100m since 1995 moving its plants in Europe closer to a computer-style assem-

own production lines. Some observers believe Jungheinrich may be interested in such

north America and whose manu-

aiready makes lift; trucks in .

"spare" parts of its production

lines for the US divisions of

rivals including Toyota and Mit-

Japanese truck makers.

subishi Heavy Industries, two big

Mr Schmohl, a manufacturing

engineer who has been at the

helm of Jungheinrich for two

years, reckons his company is in

component production is outsourced to subcontractors. The process has halved the time taken to make a typical product to five weeks, and should lead to a 10 per cent saving in manufacturing costs in two years, equivalent to DM100m a year.

New product development has been reorganised around com-"platforms" - in which Jungheinrich trucks to suit a variety of applications are based on a small number of basic structures devised by 350 design engineers in Germany, France and the UK. Through this process, manufac-

turing is simplified, making it easier to "mix and match" production of different types of machines, some of which may be sold under another maker's badge – a similar process to what occurs already in parts of the computer industry. Peter Marsh



RALPH ATKINS

### Trade shows display a Prussian flair for fairs

The German enthusiasm for giant commercial exhibitions is as strong as ever, even in an age of electronic communications

From the turret-top restaurant high in the sky, the perimeter of the sprawling exhibition site merges with the horizon. Below a stream of lorries unloads pallets, partitions and crates into two dozen giant show halls. Plastic wrapping is not yet

removed, nor cables connected. By Thursday, however, preparations should be completed for "Cebit", the biggest information technology exhibition in the world. Almost 7,300 exhibitors will fill the equivalent to 90 football pitches. Some 600,000 visitors will clog the surrounding roads, cram into the city's hotels, and feed from themselves at 42 exhibition onsite restaurants. A thousand public relation boasts will fill

journalists' notebooks; countles: more business-like handshakes will seal deals or partnerships. But Cebit - the office, information and telecommunications fair – is only part of Germany's Messe

(exhibition) madness. Capacity is being added almost daily to Germany's 21 large-scale exhibition centres, which already have 2.3m sq m of hall space. Visitor numbers rose to 10m last year, 9 per cent more than in 1996. Three out of the four biggest exhibition sites in the bly process in which much of world are in Germany.

As Klaus Goehrmann, chairman of Deutsche Messe, the company which runs the Hanover site, says, the German love of industrial fairs is undying - even in an age of electronic communication.

"They like to see, feel, even smell, fully functioning systems. They want proof - to see that the product really works."

The German executive feels at ease in the semi-formal setting of a trade exhibition stand. "He likes the direct contact. He likes the handshakes. He likes to look into someone's eyes and ask, Can I trust him?

Cebit is the perfect example. It is Disneyworld for corporate information technology experts. The venue has its own high street shops, station and helipad. Stands are built up to four stories high, complete with lifts. They have their own conference and negotiating rooms, their own

coffee bars, kitchens and restaurants. And on the top of the plushest are roof-top private dining rooms lit late into the night, "They are like houses. You are at home. You talk and then you go up for a meal," says Prof

Goehrmann. Some companies bring their entire management board. providing an office suite for each member. Deutsche Telekom, the telecommunications giant and this year's largest Cebit exhibitor, has booked 8,000sq m and will send 600 staff for the week-long fair.

Cebit's sheer size dazzles They like to see, feel, fully functioning

systems. They want to see that the product really works'

foreign visitors. But an exhibition mentality has been ingrained in Germans since the Middle Ages. The word Messe derives from Mass; the Church having provided the first meeting places for commercial traders. In Hanover the tradition dates from the end of the second world war when Leipzig, the historical centre of the German exhibition industry, fell behind the iron curtain (Leipzig, however, remained an international meeting point during the cold war, providing rare and sometimes illicit dealings between the Communist bloc and the west.) The first Hanover trade fair was ordered in 1947 by General Brian Robertson. commander-in-chief of the British section of occupied Germany. Its prize exhibits included the world's smallest diesel engine and patented trouser buttons. Cebit was spun-off in 1986 from the main Hanover fair, and is now as big.

Prof Goehrmann says running mega-exhibitions suits Prussian organising instincts: they are a chance to meet large numbers of contacts and clients in a small number of days under one roof (or at least on the same exhibition site). "People think

that exhibitions are about emotions. But they are very efficient. You are forced to negotiate fiercely because you don't have much time," he says.

The real test of Germany's prowess will come when Hanover hosts Expo 2000, the world millennium exposition. It is more of a challenge than it might seem. Germany might be brilliant at displaying machine tools; a successful international celebration of the next 1,000 years will require wit and showbiz - not hitherto regarded as the country's strongest points. Some 169 nations are expected to take part in Expo 2000, the first such world showpiece hosted by Germany. Based on the 1992 Seville exposition, it is likely to

attract 40m visitors. For now, all that is visible of Expo 2000 are the cranes building the additional halls that will be needed. It is not the only development area in the German exhibition industry. Last month Munich opened a new DM2bn (£600m) exhibition centre; Düsseldorf, in the industrial heart of north-west Germany. last week announced plans to hold annual wine shows (despite

the lack of local grapes). Can even the Germans continue to fill all the halls? At the Munich opening, Roman Herzog, German uresident described the country as the exhibition centre of the world...You can of course question whether it does not have too many [exhibition centres]. But it is not a case of too many cooks spoil the broth. In fact the opposite is the case. Competition stimulates the business."

He could have added that it was a captive market. Industrial Messe madness is hard to escape. Earlier this year, Vobis, the German computer retailer. announced it was rebelling and would not have a stand at Cebit 1998. Cebit's focus on trade professionals, rather than private customers, meant that for Vobis "it was not the right

But Prof Goehrmann is unworried; the pull of Cebit is so great, the cost of not being there too high. "We have had similar situations in the past, where somebody says 'we won't take part in Cebit'. They get all the newspapers writing about them. But they come back."

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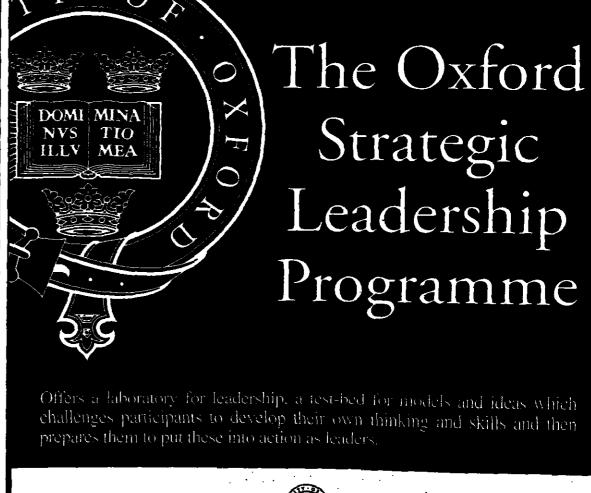
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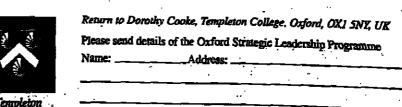
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### **BUSINESS EDUCATION**





10-15 May; 15-20 November 1998



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### Flying starts begin from a home base

autumn from 11 to 14 flights

ing to 80 per cent in peak hours.

Air France attracts even

and Italy, particularly Turin.

partner, Eurowings, from small

Lufthansa has a series of fran-

chises and alliances that provide

feeder traffic from cities such as

Venice, Verona, Marseilles,

Lyons, Antwerp and Rotterdam.

Lufthansa directs its feeder ser-

vices into Munich, which is build-

ing a substantial long-haul net-

are many. Not only does the jour-

ney start much closer to home

but parking is quicker as well as

cheaper. There is also a more

rapid check-in process: at Bristol

with up to two hours for a long-

haul flight at Gatwick or Heath-

row. There are no more lengthy

baggage screening queues. All

this makes up for the longer

flights, but an increasing number

of our business travellers are opt-

ing to fly via Bristol," says Kevin

ers Dolphin, the west country

"Heathrow is still very popular because of the large range of

flights and connection time.

takes 15 minutes, compared

zig and Paderborn.

European travellers are starting long-haul trips from regional airports because it can be cheaper and more convenient, says Amon Cohen

There was outrage at nonetheless increased its Heath-Bristol airport in the UK row-Charles de Gaulle flights last last month when the car park tariff shot up by one-third overnight. This sounds scandal- Air France's passengers from the ous until one realises that the UK make a long-haul connection new daily charge for the at Charles de Gaulle, a figure ris-"long-term" car park (two minutes' walk from the terminal) is the princely sum of £3.75. That compares with £10 a day for the NCP car park or £16 for the Pink Elephant business car park at London Heathrow.

This contrast is one of many between regional and principal airports, and helps explain why more European business travellers are starting long-haul journeys from their local base. It can be more convenient or cheaper and usually both.

Selecting the regional option frequently means flying via a hub in another part of Europe, as these often have better connections. Brussels and Amsterdam have highly developed international feeder services. KLM and its subsidiaries, KLM UK and Transavia, fly from 21 airports in the UK to Amsterdam. In addition, EasyJet flies from Luton and Suckling Airways from Cambridge. Compare that with Heathrow, which serves only 11 UK airports, and Gatwick, serving 13.

The airlines at Euro-hubs carefully plan their schedules to connect to long-haul flights with minimal waiting time. They construct a wave system, where batches of local flights arrive at the airport at about the same time, with the long-hand flights scheduled to depart one to two hours later. KLM recently increased its daily waves from three to five, while Air France operates six from Charles de Gaulle, near Paris.

Air France attributes much of its return to profit in 1997 to its success at developing Charles de Gaulle into a Euro-hub, from which it offers 5,300 weekly connections. Connection times range from 45 minutes to two-and-a-half

Even though it has lost much of its point-to-point traffic between Loridon and Paris to Eurostar, the French carrier travel agency group. "Travelling to Heathrow is more and more subject to disruption and using the airport is generally much more stressful."

Another supporter of regional airports is Henning Skovmose, senior vice-president for legal affairs at Lego Group, the toy company based next to Billund daily. More than 50 per cent of airport in Denmark. Mr Skovmose is as likely to fly longhaul from there via Amsterdam and Frankfurt as via Copen-

greater numbers from Germany Mr Skovmose could take the train to Copenhagen for a long-haul flight but, he says. "I still Venice, Bologna, Florence and Pisa. KLM also draws travellers prefer to take two flights from from Germany, with flights on its Billund. It means I can get rid of airports such as Dortmund, Leipthe luggage at the start of my

Else Marie Madsen, Lego travel manager, is also happy to see Mr Skovmose fly via foreign airports, because it often saves paying extra for the domestic leg of the journey. The same is true in the UK: fly from Glasgow to Bangkok via London and you effectively have to pay for two journeys one domestic and one international. Fly via Schiphol (10 min-

utes quicker) and you pay less. Since connecting long-haul traffic from foreign countries is incremental business, airlines: often offer incentives to win passengers. For instance, until April; 30 Air France is offering free upgrades from full-fare economy to business class and from business to first class to customers. flying to India or the far east? from airports it serves in the UK.

The same principle means that Euro-hub airlines are more likely to offer cheap, consolidated fares in business class as well as econ-Abbey, managing director of Bak- omy. This is something the home carrier rarely does and it can save as much as 50 per cent.

Journey 1: Journey 2:	Route: Lendon Seethron-Johannesburg Route: Bristol-Brusseln-Johannesburg	Airline, South African Airmeys Airline, Subseni
	Journey 1	Journey 2
Journey to airport	39.	30m
Car parideg	45m	San '-
Check-in	Th_	16a
Flying time .	10k 45m	12h 25m
Transkr		(h 49a)
Total time	15h 30m	· 149 56m
Cost of return tick	el 52,299	21,720



# A pering thought

Visits es with best lights, keinn was sairon aircraft

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to Pall and the Incident, an inchalf the captain of a Swissair flight the captain reason.

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It is a subject to the captain of the cap

ing set. It is set in JAL have adopted to the particular particular policies with the passengers. Two ideas are all passengers of up to the up t two reads are desirates on cabin crevial by the BA's chief exception and that wrote to policial the state of the state of

them when they get out of control. About a third or more of airline passengers are apprehensive about flying and the most effective remedy is alcohol.

Equally, the passengers welcome a chance to relax and indulge in alcohol. "There is a tendency for business travellers to consume more alcohol when they are away from the restric tions of their office," says Chris Roythorne, chief medical adviser of BP, the oil group.

Stan Bromley, regional vice-president of the Four Seasons hotel group, was shocked by the airlines' policing policy. "Handcuffs are good," he says, "as long as you don't expect the ers to return as custom

"If the attendants treat then right and establish a rapport with them, 50 per cent of custom ers will return the next day and apologise for their embarrassing behaviour.'

Many airlines shy away from confrontations, in the hope that they will resolve themselves. Lufthansa has a policy of not serving drunken passengers or allowing passengers to consume their own liquor in flight, information that is pointed out in the inflight magazine.

The way forward is not to espouse extremes of overreaction or acquiescence. It is to educate the public on alcohol in the air.

The author is director of the Apiation Health Institute, 8 King Edward Steet, Oxford OXI 4HL,

### **Executives left to** pick up laundry and mini-bar bills

Furnment business travellers need to pack blenty of clean shirts, a new survey suggests: Almost half say their companies refuse to pay for hotel laundry. German companies at the stinglest, with 56 per cent of employees complaining they cannot put cleaning bills on expenses. UK ecompanies are more accommodating: nearly four out of five British executives said they

could claim for cleaning. And it is a good idea to check your company travel policy before raiding the mini-bar. More than half of those questioned said their companies would not cover such costs. The survey was conducted for Visa international in the UK, Belgium, France, Germany, Italy and Spain. It found that 72 per cent were unable to charge for evening entertainment while on the road and that the to be queried is the in-room video.

### Secretaries on hand at the airport

Business travellers determined to milk every last minute from the working day can now hire secretaries on the spot at Amsterdam's Schiphol Airport. KLM has set up the service In its business lounge, in co-operation with specialist company Executive Airport Secretary B-Line. | s available every day except Sunday from 7.30am until 7.30pm. Secretaries, who will perform tasks including word processing and faxing, are bilingual in English and

### Sitting comfortably to book on-screen

The latest version of Sabre's self-booking system allows travelling executives organising their own flights to see aircraft seating plans on their computer screens. They can upgrade to a higher class of service without calling the airline and enter frequent flyer scheme membership numbers when reserving hotel rooms or rental cars.

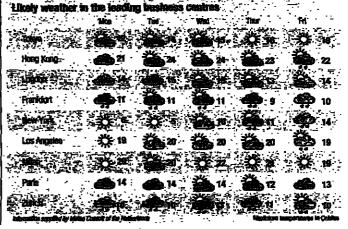
Called Sabre Business Travel Solutions, the system, which ensures users comply with company travel policy, is already available in the US. Selected customers in Europe should have the opportunity to use it from

#### A conference call for the internet

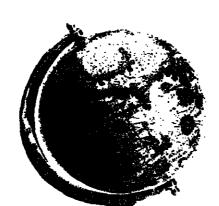
Nearly two-thirds of conference organisers would book through the internet if facilities for doing so were more widely available, according to a survey by Hilton Direct. Asked what improvements would make the biggest impact on their jobs, organisers placed faster and smoother communications during the reservations process at the top of

They were also asked what was most likely to bring them out in a cold sweat. Inability to find hotel staff or management at crucial moments was cited by 42 per cent, noise from the event next door by 16 per cent. the breskdown of technical equipment by 14 per cent and food either late or cold by 10 per cent.

Roger Bray



# No local touch.

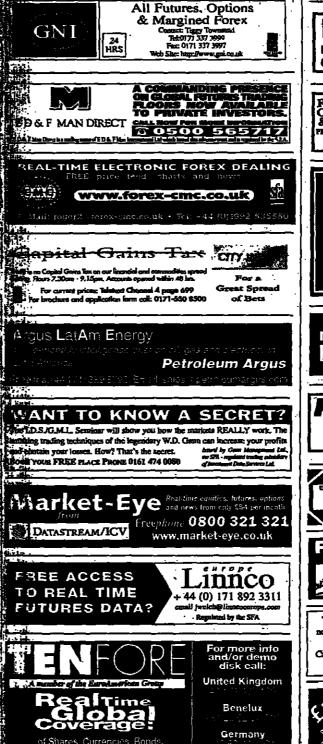


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programmes with maturities 3-7 years. The Bank that was selected as the "Best Bank of Turkey" by

Euromoney for 3 consecutive years. Then again, if you think your correspondent in Turkey should also have local, strength, who could be a better choice there bank that handles 12% of Turkey's exports and 6% of Turkey imports? A bank whose foreign currency business volume totaled \$22.9 billion in the first nine months of 1997. A correspondent bank with global standards and local power.

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LONDON. Which are Armeni end ... which Marks & Spencer? That will be the . . challenge facing

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Starting today, the Palais Harrach will be the venue for an extensive ctive of Henry Moore. The exhibits victorie 50 sculphares from all periods of his working life. models for nonumental bronzes and 40 drawings. The show runs until August

Miller's production of Cosi fan tutte at the Shaffesbury Theatre tomorrow. The Italian designer refused to allow his costumes to be altered for new cast members, leaving the Royal

choice but to look around for oassable and inger Dam-Jensen are the ewcomers, and Colin Davis (far The Art of Holy Hussia, opening

at the Royal

on Thursday.

focuses on the

great artistic flowering in. lettest play, The Moscow from the 15th to the Judes Kiss, has its 17th century. The exhibition, world premiere at the striving from Frankfurt, includes Playhouse. A treatment of the Academy of Arts 50 icons (left) from the leading Oscar Wilde story, it stars Liam

museums in Moscow.

On Thursday David Hare's

directs, for the first time since leaving the National Theatre in

BOLOGNA :

The four-act Italian version of Vendi's Don Carlo opens at the Teatro Communate on Thursday, in a production by Andrei

> Serban originally staged in Geneva. Eliahu Inbal conducts a cast. headed by Vincenzo La Scola Daniela Dessi, Carlo Colombara and Paolo

**GHENT** 

The first night of the Flanders Opera's new production of Tristan und Isolde is on

Wednesday, After three performances in Ghent, it moves to Antwerp on April 1, Silvio Varviso conducts a staging by Willy Decker, and the title roles are suring by Gary Lakes and Luana DeVol.

Art et the Time of the Accursed Kings promises to be the most dezing offering of the 1998 Parisian art calendar. Opening at the Grand Palais on Friday, it :embraces the era of Philip the -Fair and his sons (1285-1628). generally considered one of the most brilliant periods of Franch

The Royal Ballet gives performances of Ashton's Cincierelle from tomorrow Regio, with Darcey Bussell (below) dancing the title role on Thursday, Next week the company travels to Frankfurt. where the first performance is on

through Sunday at the Teatro



MUSIC THE CONDUCTOR SEUI OZAWA

### Holding the baton in Boston

It remains one of the mysteries of "but he's not a good music direc-musical America: why are Seiji tor. He hasn't motivated that Ozawa and the Boston Symphony still together after 25 years? The takes ages to make decisions, he'll relationship fell into a rut long leave key positions vacant for ago, but Ozawa's 25th anniversary as music director will be celebrated next season with the kind of fanfare usually reserved for politicians and sports personalities.

Ozawa has held on to his post longer than any of the world's active conductors. Given the shuffling at other US orchestras, with three of the "Big Five" looking for a new music director, Boston must consider itself lucky to have someone of Ozawa's staying power. But even Ozawa's staunchest admirers could hardly claim he has achieved the mystical union Koussevitzky had with the orchestra, or a relationship comparable to Levine at the Met, Dohnányi at Cleveland and Rattle in Birmingham.

The Boston Symphony's latest tour, beginning in London on Wednesday, gives European audiences a rare opportunity to assess the chemistry of its relationship with Ozawa. Boston has a long tradition of culture, but the BSO is its only big artistic institution. Its music director is a civic personality. Ozawa's appointment in the early 1970s made conservative Bos-

### Ozawa's cultural

the reasons why his

### power-base in Boston is so strong

background is one of

ton look progressive: he was the first classical musician of Japanese ancestry to lead a major western

But like several others of his generation, Ozawa has not fulfilled his initial promise. With his big smile, broken English and fluid body-language, he still oozes charisma and does well at the box-office. Technically the orchestra plays well for him. But his performances lack the relaxed expressivity and emotional commitment which are the key to interpreting the classical and romantic reper-

There have been rumbles of unrest between Ozawa and his players for years. The music director of a US orchestra wields a lot of power - especially in Boston, where the job also involves running the Tanglewood Music Center, the BSO's summer home. "Ozawa is a good musician," says a former member of the BSO's management,

orchestra since the early 1980s. He years. That's not good for morale. It's impossible to read him - you don't know whether his mind-set is American one day or Japanese the

But Ozawa's cultural background is one of the reasons why his power-base in Boston is so strong. Ozawa is a national hero in Japan; as the first Japanese musician to have won international recognition, he is a role model for tens of thousands. This status translates into money. Japanese corporations give millions of dollars each year to the Boston Symphony. NEC finances its tours; Sony coughed up \$30m for Tanglewood's Seiji Ozawa

That's one reason for keeping Ozawa where he is. In the US, the board - not the orchestra - decides who wields the baton, and the New England blue-stockings who govern the BSO are all Ozawa loyal-

Ozawa himself is keen to stay. The confluence of three events in recent years - a nasty skiing accident, the death of his brother and his own 60th birthday - caused a sea-change in his life. It forced him to think about his musical legacy. That explains the recent upheav-

als at Tanglewood and his musical missionary work in Japan. One of es over the years has been his reluctance to assert authority: with his inbred oriental respect for age, he had felt intimidated giving orders to older musicians. He treated Tanglewood's teaching programme like an absentee landlord. His worst period was when his children were growing up: horrified that they were absorbing American culture to the point where they couldn't converse with their grandparents, he had sent them back to Japan. His heart wasn't in Boston.

Over the past five years, all this has changed. Gradually, the generation of orchestra principals he inherited from Munch and Leinsdorf has retired (only one, the timpanist Vic Firth, remains). Ozawa is determined his successor should inherit players of similar quality. and his latest appointments excellent new horn and flute principals - suggest he is succeeding. The strings have maintained their silvery sound; only the brass fall short of peak quality.

The BSO is also steadying itself after a series of management crises. The first occured 18 months ago when the managing director, Ken Haas, suffered a stroke, result-



Neeson (above), Peter Capaldi,

and Tom Hollander. Richard Eyre

all last season. His place has now been filled by the dynamic young Mark Volpe. The problems at Tanglewood go much deeper. The teaching faculty, once the finest in the US, has long been in decline. Since the 1970s Ozawa has had titular responsibility but, partly out of respect for Bernstein, he rarely exercised it. When in 1996 he finally turned his attention to Tanglewood, he didn't like what he saw: the quality of students had fallen, and the involvement of BSO players in the teaching programme

was negligible. When Ozawa tried to change things, the old guard treated him like an interfering busybody. The dispute came to a climax last autumn, when reputable musicians like Leon Fleisher, artistic director of the Tanglewood Music Center, accused him of being "self-serving and duplicitous". There was a lot of blood-letting, much of it in public. What intrigued commentators was not so much the problems at Tanglewood, which outsiders had

Warhol Museum in Pittsburgh and

including early drawings as well as

Marilyn, Jackie and Campbell's Souo

better-known works such as the

Can paintings; to Mar 22

100 Days Festival, Expo '98

Portuguese Symphony Orchestra:

programme of 20th century works:

Main Auditorium, Centro Cultural de

LISBON

CONCERTS

Belén: Mar 18

LONDON

CONCERTS

ing in patchwork decision-making long recognised, but the way it unpublicised visits to remote parts acted as a lightning-rod for anti-O- of Japan, to play in schools, hospizawa sentiment inside and outside the orchestra.

That contrasts starkly with Ozawa's personality cult in Japan, which he is exploiting to the benefit of his country's musical life. Ozawa's work there suggests his heart is in the right place. Increasingly conscious that his father-figures - Bernstein in the US, Hideo Saito in Japan - left something of permanent value, he wants to do the same. The most obvious example is Saito Kinen, the festival Ozawa founded at Matsumoto in the Japanese Alps. Staffed by an orchestra of former Saito pupils, it has had an incalculable impact on young Japanese musicians. It has also encouraged Ozawa to develop his talent for opera, the one area of his work where he continues to grow as a conductor.

His last remaining mentor is Mstislav Rostropovich, with whom he shares the least known corner of his musical life; over the past six years the two have made short,

tals and community halls which have no contact with western classical music. These "caravans" involve minimal planning. Such is their success that the experiment may be repeated in China and Rus-

The bottom line with Ozawa is that, in contrast to many other conductors, the public has not tired of him. His hair may be grey ing, but he still cuts a youthful agile figure. Ever since the early 1980s, the US musical press has been reporting on "why Ozawa will leave the BSO". Well, he's still there, and he's acting as if his work has only just begun.

### Andrew Clark

Selfi Ozawa conducts the BSO in Mah ler's Sixth and Third sympl Wednesday and Thursday at London's Royal Festival Hall, followed by concerts in Paris, Vienna, Munich and

### Baldwin takes on the Bard

NEW YORK THEATRE

BRENDAN LEMON

Joseph Papp Public Theatre

Broadsheet columnists in New York have been having a field day lately trying to explain the local vogue for Shakespeare's Scottish play. for, following a storm of Tempests and a brood of Hamlets playgoers have so little weakness at the outspent the past year coping with a - coven? - of Macbeths. Whether the play's popularity, as some of these thing to the disloyalty and 'vaulting ambition" of Clinton-era politicians is debatable. Over the past months, New York has seen Macbeth played as everything except a resident of the White

House. The latest, most high-profile New York *Macbeth* has just opened for a very limited run (to March 29) at the Joseph Papp Public Theatre. Because it features movie stars (Alec Baldwin, Angela Bassett) as its lead couple, and is being produced in the theatre's snug Martinson narily scarce.

come away with any radical despair. new insights into the play, but that, one suspects, is the range will deepen as perforintent of this production's director, George C. Wolfe. if it does not, the actor, like Unlike his last Shakespearean staging, of The Tempest, in which Prospero was less Duke of Milan than Duke of the Antilles, the main character here is essentially the one written by the playwright: medieval, Scottish. Wolf focuses less on the Macbeths' guilt for their many murders – of Duncan, Banquo, Lady Macduff than on the crimes' tragic

onance. Since Wolfe has placed his actors on a plain, woodenplank stage, with only a curiously intrusive mirror as embellishment, nothing stands between the actors and the audience's enjoyment except a richly enacted reading of the text. In the first few scenes it is not clear whether this will be accomplished.

undone" assumes signal res-

Bassett is physically stunning and has a supple, altoregister voice but an unfor-

tunate habit of trying to e-nun-ci-ate every syllable. Her Lady Macbeth, however, is appropriately driven: there is no questioning the depths of her ambition and her commitment to achiev-

Baldwin's problem is not with the verse, which he handles with wonderfully clear authority, but with the emotional trajectory of his characterisation. He evinces set that it is difficult to believe that his wife would ever have to goad him to action. And he has trouble summoning the requisite emotional resources to convey Macbeth's Act V empti-

It does not help that he delivers the famous "tomor-

### Alec Baldwin, like the production, is never less than watchable

row and tomorrow and tomorrow" soliloguy while seated on his throne, which makes a banal point about space, tickets are extraordi- the loneliness of exercising power rather than the more Those lucky enough to profound one about discovgain admission may not ering the depths of one's

It may be that Baldwin's mances continue, and ever the production, is never less than direct and watchable.

The characters that really stand out in this production are the Macduff of Jeffrey Nordling and the Malcolm of Michael Hall. Their excellence is not immediately late in the play, when Macduff is informed of the murder of his wife and children and Malcolm press him to inevitability. In this readconvert his grief to anger, is absolutely wrenching. ing, "what's done cannot be Nordling reacts with loud

initial wailing to the news and if he had continued in this vein the scene's power would have quickly faded. But as the reality sinks in Nordling does something wonderful: he becomes very still. He takes a moment for reflection. He shows us that the real horror is not only in hearing that his family has been taken, but in the quiet realisation that when he wakes up tomorrow - and tomorrow and tomorrow they will still be gone.

### INTERNATIONAL

### AMSTERDAM

CONCERTS Concertoebouw Tel: 31-20-675 4411 Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev In works by Brahms, Mozart and R. Strauss. With plano soloist Stefan Vladar and soprano inga Nielsan;

Netherlands Opera, Het Muziektheater Tel: 31-20-551 8911 Oedipus Rex and Psalmensymionie: Stravinsky double-bill. New. co-production with the Salzburg festival, directed by Peter Sellars. The conductor is Hans Vonk, and the cast includes Willard White; Mar 16, 19, 22

### BALTIMORE

CONCERTS Joseph Meyerhoff Symphony Hall Tel: 1-410-783 8000 www.beltimoresymphony.org Baltimore Symphony Orchestra: with percussionist Evelyn Glennie. Programme includes Christopher

Rouse's Der gerettete Alberich, Wagner's Siegfried idyli and R. Strauss's Also sprach Zarathustra The conductor is David Zinman; Mar

#### BERLIN CONCERTS Philharmon

Tel: 49-30-2548 8354 Berlin Philharmonic Orchestra: conducted by Philippe Herreweghe in Bach's Passion. With soloists including Anne-Sofie von Otter and Matthias Goerne; Mar 17, 18 Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Lutoslawski and Tchelkovsky, Mar 21, 22

### CHICAGO CONCERTS

Orchestra Hall Tel: 1-312-294-3000 www.chicagosymphony.org Chicago Symphony Orchestra: conducted by Oilver Knussen in works by Stravinsky, Lieberson and Knussen. With soprano Lucy Shelton and hom soloist Gail Williams; Mar 17

 Chicago Symphony Orchestra: conducted by Oliver Knussen in works by Mussorgsky/Stokowski and Knussen. With soprano Rosemary Hardy, Mar 19, 20, 21

#### DUBLIN EXHIBITINS irish Museum of Modern Art Tel: 353-1-612 9900 Andy Warhok After the Party, Works 1956-1986. This first major showing

in Ireland of Warhol comprises some

100 works, drawn mainty from the

Barbican Hall Tel: 44-171-638 8891 The Royal Opera: Mefistofele, by Bolto, Concert performance. conducted by Bernard Haitink. The title role is sung by Samuel Ramey; Mar 16 Boulez Celebrates Carter: Pierre

Boulez conducts the Landon Symphony Orchestra in works by Bartok, Schoenberg, Carter and Debussy. With plano soloist Emmanuel Ax; Mar 22 Royal Festival Hall Tel: 44-171-960 4242

■ City of Birmingham Symphony Orchestra: conducted by Sir Simon Rattle in works by Boulez and Messiaen; Mar 16 Boston Symphony Orchestra: Seifl Ozawa conducts Mahler's Symphony No. 6; Mar 18 Boston Symphony Orchestra: Seiji Ozawa conducts Mahler's Symphony

English National Opera, London

No. 3; Mar 19

### Tel: 44-171-632 8300

 La Bohème: by Puccini. Steven Pimiott's production is revived by Barry Atkinson and Frances Moore, and conducted by Emmanuel Joel; Mar 16, 19, 21

 The Elixir of Love: by Donizetti. New production, directed by Jude Kelly and designed by Robert Jones. The conductor is Michael Llovd:

#### Tel: 44-171-379 5399 The Royal Opera: Cosi fan tutte, by Mozart. Revival of Jonathan Miller's production, conducted by Colin

Shaftesbury Theatre

Davis; Mar 17, 19, 20, 21

MADRID CONCERTS Auditorio Nacional Tel: 34-1-337 0100 Elliott Carter 90th Birthday Celebrations: Pierre Boulez conducts the London Symphony Orchestra in

works by Ravel, Carter, Stravinsky

### MILAN

and Prokoflev; Mar 18

OPERA Teatro alla Scala Tel: 39-2-88791 www.lascala.mijano.it Kovancina: by Mussorgski. Production from the Mariinsky Theatre of St. Petersburg conducted by Alexander Polinichka in a staging by Fedor Lopukhov, with designs by Fedor Fedorovski; Mar 18

**NEW YORK** CONCERTS

Avery Fisher Hall, Lincoln Center Tel: 1-212-875 5030 New York Philiharmonic: conducted by Daniele Gatti in Mozart's Eine kleine Nachtmusik and Mahler's Symphony No. 5; Mar 18, 19,

**EXHIBITIONS** Metropolitan Museum of Art Tel: 1-212-879 5500 www.metmuseum.org Charles-Honoré Lannuie (1779-1819): around 50 pieces of furniture by the French cabinetmake

Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000 www.metopera.org Lohengrin: by Wagner. New production by Robert Wilson, with costumes by Frida Parmeggiani; Mar

who left Paris for New York in 1803,

where he built a successful career,

from tomorrow until Jun 14

THEATRE Joseph Papp Public Theatre Macbeth: by Shakespeare. George C. Wolfe directs Alec Baldwin and Angela Bassett as Macbeth and Lady Macbeth; to Mar 29

**PARIS** CONCERT Chātelet Tel: 33-1-4028 2840 London Symphony Orchestra:

Salle Plevel Tel: 33-1-4561 6589 Orchestre de Paris: conducted by Semyon Bychkov in Mahler's

conducted by Pierre Boulez: Mar 19

Symphony No. 2. With soprano Elisabeth Norberg-Schulz, mezzo-soprano Marjana Lipovsek and Choir led by Arthur Oldham; Mar 18, 19, 21

Théâtre des Champs Elysées Tel: 33-1-49525050 Budapest Festival Orchestra: conducted by Ivan Fischer in works by Liszt and Strauss. With plano soloist Cyprien Katsaris; Mar 16 Budapest Festival Orchestra: conducted by Iván Fischer in works by Wagner and Liszt, Mar 17

TOKYO CONCERT Bunkamura Tel: 81-3-3477 9999 Tokyo Philharmonic Orchestra: conducted by Kazushi Ono in works by Ligeti and R. Strauss. With violin sololst Eff Arei; Orchard Hall;

### VIENNA EXHIBITION

Mar 20

Kunstforum der Bank Austria Tel: 43-1-533 2266 From Monet to Picasso: display of 120 works, starting with French Impressionism and Pointillism, and ranging through the Russian avant-garde and German Modernism to 1945; to Jun 28

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www.schoenberg.at Schoenberg Festival: celebrating the opening of the new Center, the festival, which opened with a concert featuring the Vienna Philhermonic

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# Pol Pot's enduring lesson

The creation of a strong International Criminal Court as a venue for indicting war criminals and instigators of genocide is long overdue

world-class war can you do with him? Not much. When the Khmer Rouge appeared ready to turn over Pol Pot last year, no one wanted to prosecute him, Cambodia, fraught with political and legal chaos, could not be the forum for his trial. Canada had domestic laws enabling its courts to address genocide committed outside its borders. That was very generous of the Canadians, but the world obviously needed a regular venue for delivering verdicts on genocide, war crimes, and crimes against humanity.

The world may soon have a strong International Criminal Court to take charge of its Pol Pots. This week, the last preparatory meeting for an ICC treaty takes place in New York. The founding conference will be held in Rome this summer. Several countries, including the US, want to dilute the court's independence and ability to start investigations on its own. But if the ICC's firmest supporters carry the day, an institution for human rights

Atrocities in the 1870-71 Franco-Prussian War motivated some of the earliest calls for an international that they could not hope for criminal court. After the normal relations with the Nuremberg and Tokyo trials, outside world as long as war European diplomats hoped to make those tribunals permanent. The Genocide Convention of 1948 called for likely for rotten tyrants to

nce you've got offenders to be tried "by let go of their power? Dicta-hold of a truly such international penal tribunal as may have jurisdic-

But like a lot of international law, these fine ideas were buried by the cold war. Only after the genocides in Bosnia and Rwanda, when the UN set up temporary tribunals to indict the perpetrators, did serious negotiations for the court get under way. The UN tribunals for the

former Yugoslavia and Rwanda have not lived up to expectations. The trials got off to a slow start, and many of the indicted are still at large. But the cases of former Bosnian Serb president Radovan Karadzic and General Ratko Mladic show why indictments have teeth even when criminals have not

been apprehended.

Karadzic and Mladic were indicted in 1993. But since 1996, Nato troops in Bosnia have studiously avoided tracking down these two men and their security retinues, which are like small armies. Yet the indictments have stigmatised both men and kept them from functioning openly in large parts of their own country. Everyone in the region, from Yugoslav president Slobodan Milosevic down, realised criminals were running the

Bosnian Serb republic. Would an ICC make it less lier in Haiti to Ferdinand Marcos in the Philippines left their palaces on the promise that they could live comfortably, if quietly, outside the country. Much bloodshed was averted by

their eventual departure. If they faced prosecution abroad, they might decide not to leave. But the best way to usher a dictator out of power is to convince him the fig is up. When the Reagan administration unequivocally withdrew its support from Mar-

cos and Duvalier, they

stepped down; retirement

plans were incidental.

proper indictment from the ICC would deliver the same message. but universally: you are a global pariab, and there's no turning back. If the ICC is to be a credible institution, its indictments should strip a leader of his legitimacy and authority so completely that he becomes less able to govern, and more susceptible to overthrow.

If there had been an ICC in 1988 to indict Saddam Hussein for genocide after he killed 100,000 Kurds, the world might have dealt with him very differently. It would have been much more difficult for France and Russia to agitate for commercial relations with him. Perhaps his own military would have dispensed with him, to try to

To stigmatise a national leader so thoroughly, the ICC would have to pack real authority. Unfortunately, the US, France, and other countries want the prosecutor to wait for the UN Security Council, or individual states, to refer matters for prosecu tion. They also want individual states - including, possibly, the state where the crime took place - to give consent before a prosecution

These provisions would hamstring the court. Imagine having to ask Iraq's permission to bring a case against Saddam Hussein right now. The prosecutor must be able to launch an investigation based on good evidence from any source.

may go forward.

Worries about protecting national sovereignty are misplaced. An effective ICC would not shoulder national courts aside; they would remain, as always, the front line of judicial action. Everyone agrees the ICC would only take on cases where national courts had collapsed or ceased to function.

For most countries, that is a distant possibility. But for others, it is an urgent need. The next time a Pol Pot suddenly presents himself, the world must have a court to

Carroll Bogert is Communi cations Director of Human Rights Watch, a New York-

# LETTERS TO THE EDITOR

### Strategic interest the real driving force behind US foreign policy

Chrysuphinis.

Sir, US foreign policy has our eyes for years and now Edward Mortimer, in his article "Demonic duo" (March 11), seeks to do the same by having us believe that the US has assumed the advantage can be obtained role of "global policeman". at not too high a cost, the Like any other nation, the issue crystallises. An aggres-US has its own agenda which determines whether a and sanctions are waved in conflict requires intervention or not. Two possible scenarios arise: where no benefit can be obtained from intervention, a conflict will be called an "internal issue". Elict is a difficult task and The US and its deputies will the answer will invariably

their differences in a peaceful way (Chechnya).

sor is identified and guns the name of peace and human rights, as required (Kuwait and Bosnia).

Determining who is right and who is wrong in a con-

find it impossible to pro- vary according to the time nounce on who is right and frame one uses in analysing who is wrong and the two the situation. Perhaps the been pulling the wool over sides will be asked to solve US is simply being pragmatic in acting in accordance with its strategic Where a US sphere of interests. However, if we influence is seriously threat accept that US action is not ened or where a strategic principally motivated by respect for human rights or the undoing of injustices, it may be easier to explain why US foreign policy fails to convince Yugoslavians and Iraqis to get rid of their reprehensible leaders.

2 Ellis Street,

George Chrysaphinis, Nicosia POB 5282.

### Limit to Commission's power over internet

From Mr David Strang. Sir, Tim Jackson's article, 'No red flag From Brussels" March 9), discusses the interesting issue of regula-tory attitudes towards mergers in the market for internet services. Unfortunately, the contrast drawn between the European Commission's treatment of WorldCom/MCI

and of AOL/CompuServe is based on a misapprehension. The Commission does not

acquisition, presumably because the relatively high turnover thresholds of the EU merger regulation were not met. The transaction was instead reviewed on a national basis and the US. German and UK competition authorities have all expressly given a green light

to the deal. The attitude adopted towards the now abandoned appear to have had the Kluwer/Reed deal, which London EC3A 7NJ. UK

power to review the AOL would have been subjected to detailed scrutiny in relation to possible dominance in on-line publishing, tends rather to show that the Commission is well aware of the issues raised by possible dominance in new market

> David Strang, Barlow Lyde & Gilbert

### Investment climate in Ethiopia not so positive

From Mr Stephen D. Sutton. Sir, Your survey on Ethiopia (March 2) was extremely realistic in its analysis of conditions in that country facing potential foreign

investors. The survey mentions the Ethiopian government's meanwhile is retaining the refusal to compensate for proceeds of sale from the eign investors whose property has been expropriated without compensation. The survey also refers to the Ethiopian government's privatisation programme. What it does not mention is the fact that the Ethiopian gov-

engaged in "privatising" expropriated property (belonging to foreign investors) even though no compensation has been paid to the original foreign owners. The Ethiopian government, so-called privatisation.

In addition, your readers (and potential investors in Ethiopia) ought to be aware of the fact that the Ethiopian government continues to col- Suttons. solicitors. lect rents and other reve- 23 Bentinck Street nues from the properties it London WIM 5RL. UK

ernment is presently has expropriated (and not yet privatised) while simultaneously refusing to compensate the dispossessed former owners.

I am concerned that the climate for foreign investment in Ethiopia may not be as positive as represented. The Ethiopian government's failure to compensate previ ous investors bodes ill for present and future investors

Stephen D. Sutton

### Tax rise a good test of prudence

From Mr Patrick Dennis.

Sir. I was surprised to read in their letter (March 4) that professors Tim Congdon and Gordon Pepper, two of the leading UK "monetarists", are advocating a policy of "overfunding" as a means of overcoming the dilemma of a monetary policy which is exacerbating the divisions in the economy between the broadly buoyant domesticoriented services sector and the stagnant export-oriented manufacturing sector.

As any UK commentator from the early 1980s knows. this policy was hardly a success. Selling gilts by more than is necessary to cover the public sector borrowing requirement leads to an unwanted rise in long-term interest rates as well as the problem of a "bill mountain". The government actually wants to cut the cost of financing its budget deficit and is aiming at long-term interest rate convergence with the core EU countries. A policy of "overfunding" is not conducive with achieving a permanently low inflation environment.

The solution to the monetary policy dilemma is to rebalance macroeconomic policy. I do not advocate fiscally "fine-tuning" the economy, but a strong case can be made for raising taxes on consumers which would facilitate a cut in short-term interest rates and lead to a lower exchange rate. An additional measure which could be made to cut interest rates is the abolition of mortgage interest rate tax relief.

The government's willingness to pursue such policies would be a much better test of prudence and non-political approach than its policy of central bank independence.

Patrick Dennis. 79 Greenwich South Street, London SE10 8NT, UK

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### ECONOMICS NOTEBOOK GILLIAN TETT

## The whole story in Japan

e are more reasons than bubbling sleaze to keep watching the bank of Japan tax and rate changes, and a startling provision of liquidity to the markets

entral bankers rarely like the limelight. At the moment, the Bank of Japan has a particular reason to be scrambling for the shadows.

For as corruption scandals swirl in Japan's financial world, the Bank last week suffered a great humiliation - for the first time in 50 vears one of its senior officials was arrested. He had allegedly leaked information about price sensitive money market operations to banks, in exchange for lavish "wining and dining".

The scandal makes shocking reading but is not the only reason to glance at the Bank's monetary operations. Next month a new law will come into effect giving the Bank independence over monetary policy. This comes at a time when many are

asking whether monetary

policy actually matters any

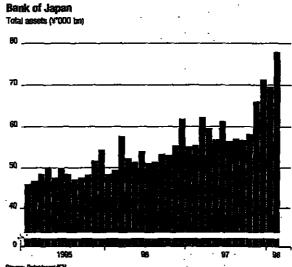
more in Japan. At first glance the answer seems to be "no". As Japan's economy alls, the issue dominating the policy debate is whether the government will produce long-awaited tax cuts, not rate cuts. Indeed, it seems ironic that the Bank has finally won the control it always wanted over interest

rates when they are of limited interest. The reason is there is currently little room to use interest rates as a policy tool to boost growth. The official discount rate has been stationary since the Bank cut it to a record low of 0.5 per cent in September 1995.

Some economists argue there is still room for further cuts, perhaps to zero. But the Bank suspects that cuts would give little boost to the economy, partly because the current consumer gloom, banking problems and industrial malaise means there is only limited demand for borrowing now, however cheap.

And there is also a powerful political impediment to a cut: some politicians in the ruling Liberal Democratic Party are demanding that rates should rise, not fall, to boost the economy.

This might sound like Alice in Wonderland economics. But it highlights an economic truth often ignored



in countries like the UK, where the cost of corporate borrowing and mortgages dominates the policy debate. For higher rates means savers will receive more interest on their deposits. In Japan savers are receiving pitifully low returns at present. Consequently, politicians believe higher rates could offset consumer gloom.

The Bank has not yet been persuaded by this argument. But when the new independent policy board takes control of the rate process in April it is unlikely to push for a change. After all, Japan is famous for compromise. So far, so unremarkable,

But this tells less than half the tale. For there is one policy area where the Bank has been taking some striking decisions recently – its provision of liquidity into daily money market operations.

These provisions usually receive limited public attention. But one way to measure them is through the liquidity to the markets by buying bonds, commercial paper or other bills from the Bank's assets - and thus present. The money, it is give a good indication of argued, is being swallowed recent pattern, as the graph

shows, is startling. During the last three matic surge in the Bank's assets. By the end of February they stood at Y78,600bn. which is Y23,200bn (\$179bn)

higher than the year before

- an annual growth rate of

42 per cent Money creation on this scale is unprecedented in Japan. And had it occurred in any other western country there might have been howls of concern from inflation hawks, or delight from those wanting faster growth. But from Japan's politi-cians it has aroused little

comment. One reason is that the Bank has presented it as a temporary, short-term operation to help the banking system, rather than the economy as a whole. Such help is needed because weak financial institutions have been having problems raising funds in recent months, after two banks and a broker collapsed in November. Flooding the market with liquidity is thus intended to help the banks survive to Bank's balance sheet. This is the end of the March 31 fisbecause it usually supplies cal year. Indeed, some

observers suspect the operations will slow in April But the other reason is financial institutions in that many economists exchange for cash. These assume this liquidity cannot then get counted as part of feed into the real economy at how much cash it is pump- by financial institutions that ing into the system. The are trying to heal themselves. In effect, they believe there is a liquidity trap.

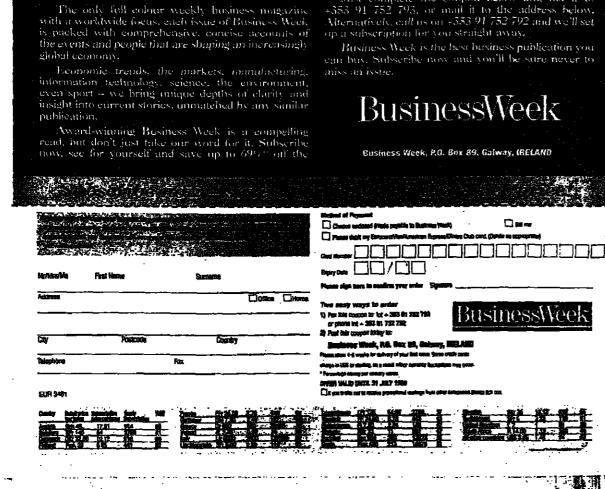
assumption is wrong? After all, a liquidity provision this big is unprecedented. And Japan's recent financial crisis has also tipped the country into relatively uncharted waters. Ron Bevacqua, an economist at Merrill Lynch, says: "The amount of money they are pumping in is just so huge now that there may be a chance it could leak into the economy.

If this happened it might provide a welcome boost to Japan's growth. But there is little sign of it yet. In theory, if money was "leaking" out of the banking system higher asset prices, higher growth or a flood of capital overseas would result. But at present growth is sluggish, inflation almost non-existent, and there is no sign of a significant capital flight. Nor is anything too star-

tling happening to monetary statistics. The annual growth rate of M1, the narrow measure of money supply, accelerated in January to 9.9 per cent, partly because of this liquidity injection. Broad money (M2 plus CD) has also risen above 4 per cent. But the broadest measure of all has stayed within 3.2 per cent and 3.5 per cent since last June, partly because banks are still curbing credit.

Michael Naldrett, an economist at Dresdner Kleinwort Benson, points out though that a rise in money supply usually only delivers an impact on the economy after a long time lag. This means the real impact may only become clearer later this year. If economic growth picks up for other reasons if the government finally cuts taxes, or the banking sector suddenly improves this liquidity "trap" might become unblocked.

This scenario still seems less, rather than more, probable given the depth of the banking sector's problems. Money, in other words, does not appear to be the key element driving Japan's economy at present. But even avowed anti-monetarists would be foolish to ignore the monetary records now being broken. There will be more reasons than bubbling The Y60,000bn question, sleaze to keep watching the During the last though, is what if this Bank in the coming weeks,



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### FINANCIAL TIMES

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Monday March 16 1998

### From the ERM to Emu's joys

Europe's exchange rate mechanism, an essential step on the path to eventual membership of brief journey. Ireland turned its the single currency. These are two small changes on the periphery of Europe. Yet it is not just Greece and Ireland that are affected. What has happened has Andreas Papandreou is a more implications for others, not least

The decision by the European Union's monetary committee to revalue the Irish punt by 3 per cent within the ERM came as a surprise. It was presented as a small adjustment on the path to the move has a domestic benefit. economic and monetary union. Of the 11 currencies widely expected to join Emu, the punt alone has been trading quite far from its central rate. By bringing the central rate closer to the market rate, the committee hope to minimise jolts on the road.

Yet the decision is risky. If one currency can be adjusted, why, it may be asked, should others be immune? As it happens, Ireland has strong domestic reasons for revaluation, as well. With growth running at 8 per cent and the pound sterling soaring against the punt, inflationary pressures have been growing in Ireland. These can only increase, since short-term interest rates will have to fall from the 6.75 per cent of today, as Emu comes closer. This small revaluation will certainly be unpopular with exporters and farmers. But it should curb those pressures at least a

Ireland revalues the punt and Greece puts the drachma inside Over-heating at the end of its long road to Emu. Greece states its desire to be included after just a back on the populism of Charles Haughey several years ago; Greece's rejection of the even more presponsible policies of recent conversion. But the Greek decision to join the ERM follows strikingly successful stabilisation under a radically altered Pasok. Orthodoxy is triumphant, from one end of Europe to the other,

For Greece as well as Ireland. The drachma was widely agreed to be overvalued. But by putting it in the ERM, the government indicates its refusal to tolerate any slide. To reinforce credibility, Costas Simitis, the Greek prime minister, has stated the aim of entering Emu by 2001. Yet whether full convergence is within Greece's grasp so soon is an open question.

Actions by these two small countries might seem to have little importance for countries set to remain on the outside. Yet Greece's decision to join the ERM strengthens the consensus that this is where candidates must wait for two years before entering Emu. For Mr Brown and Mr Blair in London, the reminder is not just that most EU members expect to enter Emu's paradise very soon, but that the UK will almost certainly have to wait in an ERM limbo before being let in from the cold.

### Japan's banks

Last week, the Japanese avoid destabilising the economy. government missed yet another This is how the US savings and opportunity to show that it is loan crisis was resolved, and this serious about reform. The occa- is the only way to restore Japan's sion was the announcement of financial system to health. which banks would be receiving public money to recapitalise their leaves the banking system as far Despite the government's hopes, it will not belp the Japanese

economy escape from recession. The allocation of the capital injections between the banks is money to play with. With the indiscriminate and almost problems of overcapacity and bad entirely unrelated to the circumstances of individual banks. The already overcapitalised Bank of Toyko-Mitsubishi has received an unnecessary - and expensive handout. Worse, some of the banks on the list are probably

insolvent, and should not have

received any funds at all. Once again, the Japanese authorities, with their minds focused on short-term considerations such as the financial yearend, have taken the easy option. What they need to do to sort out the financial system is quite to kickstart its economy. clear. The good (ie solvent) banks must be sorted from the bad. The good banks should be allocated a sufficient capital injection to allow them to write down their bad loans. The insolvent should be forced to merge, or be allowed to fail, with sufficient depositor. up bankrupt banks, it will just be protection insurance in place to good money after bad.

The capital injections will be equally ineffective in helping the balance sheets. The allocation Japanese economy. The government is hoping that the recapitalto overcome their reluctance to lend, so easing the credit crunch. But this is unrealistic.

> The hanks may have more debts unresolved, they will not be keen to lend it out. Indeed, they should not - it is essential that the extra capital is used to facilitate writeoffs of bad debt.

Japan's economic problems run far deeper than a simple credit crunch. The reduction in bank lending is probably as much a demand-side phenomenon as a supply-side one. With domestic demand sluggish, there is little demand for new lending. A substantial loosening in fiscal policy is the only way Japan can hope

It is not yet too late to turn this policy around. Over Y11bn (\$85m) is left in the fund set aside to recapitalise the banks. If it is well used, it could still ease the painful process of banking sector restructuring. If it is used to prop

# Less than a cure for all ills

The case for environmental taxation is good enough in itself. It is not helped by those making either unsound objections or exaggerated claims in favour, say Leyla Boulton and Martin Wolf

reen taxation is often looked on as the fiscal equivalent of the philosopher's stone: a magical tool, able to turn the political dross of higher taxes into the unalloyed gold of a nicer environment, more jobs, greater economic efficiency and increased popularity. This sounds

too good to be true. And it is. Green taxes are already popular, particularly in Scandinavia. They are becoming more so elsewhere. Last year, the British government committed itself to increase road fuel duties by 6 per cent a year until 2000.

If Gerhard Schröder, the SPD challenger to Germany's chancellor Helmut Kohl, were to form the next government with the Greens, ecological tax reform could move further ahead in that country also. The SPD, though hesitant itself, may concede the principle as a concession to its putative coalition partner.

When judging the wisdom of such plans, one must remember the purpose of green taxation: it is to ensure that prices facing producers and consumers reflect the marginal environmental costs (and benefits) of their activities. As Professor Ernst von Wei2säcker, a leading German proponent of green taxation, points out, "prices that say little about ... actual costs to society" are an obstacle to efficient use of

The chief aim of the policy is, in the economists' jargon, to "internalise" an otherwise ignored "externality", that is, to make clear to decision-makers the costs of resources that do not have market prices. Fiscal instruments are attractive in this context because businesses and consumers are then free to decide how to respond. This will lead to greater efficiency and allow more liberty than "command and contrel" alternatives, such as, say, banning some polluting activi-

If "bads" are to be taxed, they must, obviously, not be subsidised to begin with. Green taxation should therefore start with the withdrawal of subsidies to pollution. The European Union's Common Agricultural Policy has long led to pollution of water. According to the World Bank, phasing out Germany's subsidies

by 1 per cent. taxes. According to the Organisation for Economic Co-operation and Development, these appear effective.\* Successful examples include the landfill tax in the UK (a tax on depositing waste in landfills), Sweden's tax on sulphur content of fuel and the Danish tax on construction waste. The Danish levy has driven the proportion of construction waste that is recycled to 84 per cent, compared with 15 per cent in Britain. In Sweden low-sulphur diesel fuel is now the only kind

available. The OECD argues that governments should impose more (and heavier) green taxes. A leading candidate is energy. Taxes can also he imposed on road use or provision of parking spaces. On the list of products taxed in at least one country are lubricants, fertilisers, mercury and cadmium

batteries and packaging.
All taxes are vulnerable to evasion, including green ones, parricularly if set - for good environmental reasons - at punitive



levels. A survey from Tidy Britain, a charity, showed that 21 per cent of local authorities had reported a 26-50 per cent increase in illegal dumping of rubbish in the six months after the landfill tax was introduced in October to its coal industry could cut 1996. Green taxes need to be global carbon dioxide emissions policed. When the "bad" in question

Along with withdrawal of sub- affects people only in the juristhe tax, action is relatively simple. Things are far more difficult when pollution spreads across borders. A hard-headed national government will have little reason to act on a global challenge. such as global warming, when its own attempts to limit the pollution will make little difference to

In such cases, an international regime is needed. One already exists within the EU another is emerging for global warming. But taxation will still help make what has been agreed effective.

So the case for green taxation is good enough in itself. It is not helped by those who make exaggerated claims in favour or. still worse, advance unsound objections against. Proponents argue, for example, that green taxation will provide a cornucopia of fresh revenue. Opponents complain that green taxation will undermine competitiveness or worsen the plight of the poor. These positions are oversimple, tendentious or wrong.

Receipts from environmental taxes have increased over time, though they were still only about 6 per cent of EU total tax revenue in 1993. Yet there is a fundamental objection against over-emphasising the chances of increased revenue: the more successful tax is at eliminating pollution, the less revenue it will generate. The

will raise some money. So there is a question about what should be done with the proceeds. The obvious answer is to use them for the government's highest prior-Labour reduced the

VAT rate on domestic heating fuel. This was

populist posturing

ity, be it employment, tax-cutting, the environment or something else. There is no overwhelming reason why the use should be different because revenue comes from environmental taxes. Moreover, to emphasise the additional revenue may even be politically counter-productive As John Gummer, the former UK environment secretary, argues. "you have to be sure it is really a means to protect the environment rather than an excuse for

government to raise money". Otherwise, he notes, the additional taxation may give environmental protection a bad name. Some proponents meet this objection by linking green taxa-

tion to supposedly popular spending. One such approach is to suggest that environmental taxation offers a "double dividend": it can reduce pollution and permit labour, thereby increasing employment. Revenue from the UK's landfill tax, for example, was used to lower National Insurance contributions (a tax on labour). Yet the scale of the "double dividend" is, at the least, uncertain. And it is foolish to hold needed changes in labour taxation hostage to plans for green taxation.

Forming a direct link between environmental taxes and the cost of labour is an example of "hypothecating" or "earmarking" revenue. Another such link could be between green revenue and environmental spending.

Should green taxes be earmarked for green issues? The advantage of hypothecation is that it increases the transparency of the link between taxes and spending, which may make it politically easier to introduce a high priority form of spending. It has a decisive disadvantage, however; it can lead to inefficient and unstable spending patterns. If raising revenue is a feeble

argument in favour of green taxation, adverse effects on competitiveness and income distribution are still weaker arguments against it. The alleged disadvantages can be readily dealt with by offsetting changes in either taxa-

tion or spending.
Thus, the argument that green taxation will undermine the "competitiveness" of the economy as a whole is mistaken, largely because the notion of overall competitiveness has little, if any, meaning. If the tax reduces an environmental "bad", it will raise prosperity, correctly neasured, which is the goal of competitiveness. Any revenue can be used to improve the performance of an economy.

Far more relevant is the fact that green taxes will undermine the profitability of particular industries, particularly the most polluting activities. That is, after all, their purpose. Yet, notwith-standing this logic, the EU's initial proposals for a carbon tax suggested exempting six energyintensive sectors. The explanation for the absurdity was political. To meet the opposition, it may be necessary to impose taxes incrementally. It makes no sense, however, to avoid taxing the

most polluting sectors.

This can be difficult to sell domestically. It is particularly so when the effectiveness of a tax depends on complementary action by others. Gunnar Rabe of the Federation of Swedish Industries points out, for example, that his country's carbon tax was confined to Sweden. "The problem from our companies' point of view is that they don't see their competitors getting the same tax," he complains. The answer is an effective international regime.

While some worry about the impact on competitiveness, others worry about poverty. Poor people, it is claimed, are harder hit by some green taxes than rich people. It is unclear how serious the effect is: the OECD suggests that an EU carbon tax would not have been particularly regressive. Yet the issue is politically salient. In the UK, the Labour party savaged the Conservatives for their attempt to raise value added tax on domestic heating fuel to 17.5 per cent. In last July's Budget, Labour reduced the rate. then at 8 per cent, to 5 per

This was populist posturing. The share of income spent on heating by poor people tends to Nevertheless, the latter spend absolutely more. It is possible therefore to impose higher taxes. if desirable on environmental grounds, while compensating those adversely affected through either taxes or social spending. It is absurd, as in the IJK to tax energy-saving materials at 17.5 per cent, but domestic fuel at 5 per cent.

Taxation of environmental "bads" is a good idea, but as part of an environmental strategy. No government should fail to introduce such taxes for fear of mythical, or readily ameliorated, damage to competitiveness or the poor. Equally, no government should introduce green taxes merely to fill holes in the revenue or let hypothecation distort its spending priorities

Green taxes are not alchemy. They are a tool of environmental policy, to be introduced, defended and implemented as such.

Environmental Taxes and Green Tax Reform (Paris: OECD, 1997)

### Value in defence

Has the wave of mega-mergers in the US defence industry run its contractor for each large weap from the justice department's intervention last week in Lock- involved as sub-contractors. heed Martin's proposed acquisi-Washington's problems with the deal may simply be part of a tough bargaining process, for it would be surprising if the Pentagon did not want the merger to go through in the end. A deal may be struck to force disposals competition to restrain prices of radar and electronics busi-

But the government's reservations do appear to signal an end to consolidation in the industry: there may be smaller deals, but no more large mergers. The Pentagon's endorsement of the justice department's concerns also suggests that, after prodding the industry into restructuring five years ago, it may be having second thoughts about how to get value for money in procurement.

The result of the 1993 "last supper", at which the then defence secretary told contractors that he wished their number to shrink. has been dramatic. Top-level "prime contractors" in military aircraft and electronics have Lockheed Martin and Raytheon. A contraction of capacity was

three can compete to be prime course? That is one inference ons programme. But whichever wins, the other two will often be The Lockheed/Northrop

tion of Northrop Grumman. merger, if allowed intact, would eliminate competition in areas in which technological innovation will be crucial. The Pentagon will need to develop methods, including Chinese walls within companies, which maintain sufficient and promote innovation. It is rightly encouraging companies to reduce dependence on defence. The fact that US defence merg-

ers are over should not deter Europe from addressing its even more serious problems of over-capacity and inefficiency. It is not easy to bring European defence and aerospace companies together through mergers, as they have many customer governments and there are political constraints including state control in France, Italy and Spain. But unless Europe can forge a corporate structure which deliv-

ers value and world-class products, governments will increasingly find it hard not to buy from the American big three. The govbeen reduced to three: Boeing, ernments of Britain, Germany and France have asked the largest companies to produce a necessary given post-cold war rationalisation plan by the end of defence cuts. But the new configuration looks disturbingly cosy. tarry long in dealing with the It is true that at least two of the companies' responses.

Todai, or not Todai?

The bankers and bureaucrats rounded up in Japan's "wining and dining" purge have more in common than a penchant for expensive restaurants. The bigger heads to roll are nearly all graduates of Tokyo University, known as Todai - Japan's equivalent of Harvard and Yale rolled Into one. Todai graduates dominate the top echelons of the bureaucracy and business; friendships made at university have helped cement cosy relationships between government and private sector. But how come the investigation

has been pursued with such numlessness? Surely the senior ranks of the police force and the public prosecutor's office are also stuffed with Todai graduates? Well, no. Katsuhiko Kumazaki, head of the financial scandal investigation team, is a graduate of a small private university. A large number of his subordinates went to Kyoto University - Todai's arch rival.

Funnity enough, there's talk that Kumazaki may find himself pushing a different oen after the annual bureaucratic reshuffle. Surely the personnel section wouldn't be wayed by Todai sympathies?

### **Half mast**

Bit of a flap over flags in Canada's parliament. The antics began when a representative of the separatist Bloc Quebecois complained that the Canadian Olympic delegation

displayed too many red and white Maple Leafs in Nagano, Federalist MPs responded by breaking into a rousing chorus of "O Canada" and vaving small Canadian flags.

MPs from the conservative Reform Party have kept the flags on their desks ever since, though it contravenes parliamentary rules. The proud patriots reckon it's a freedom of choice issue; many of them have started sporting Maple Leaf ties and a few are even driving around in red-and-white cars.

As yet there's no sign of a solution to break the deadlock and it will probably fall to the speaker to sort things out. Sounds like time to run a few ideas up the flagpole and see who salutes.

### Will power

A play-maker has emerged in the increasingly bitter contest for the biggest job in world football. Scottish awyer David Will was never far from the action at Friday's emergency meeting of Fifa world football's government body - an ill-tempered affair culminating in a walk-out by João Havelange, Fifa's soon-to-retire ioπesideπt.

Will may be a director of Scottish second division strugglers Brechln City, but when it comes to football politics he's in the premier league. A partner in a Brechin law firm, north of Dundee, he did well on Friday to prevent hot-headed members of Fifa's executive committee scoring an own goal: they wanted secretary general Sepp Blatter to step down after he refused to say whether he

was in the running for Havelange's iob. Forcing out Blatter would have thrown a spanner in the works of preparations for this year's World Cup finals in France.

**OBSERVER** 

But even Will couldn't prevent the ensuing row. Havelange, 82, refused to accept Will's watered-down proposal that Blatter should only go if he formally enters the race. He asked Will to draft a counter proposal enabling Blatter to continue in his post and run for president. When Will refused, Havelange walked out - though not before aiming a few choice words at his old aliv.

Will himself is in a tricky position. It Blatter doesn't run for president then the job almost certainly goes to European football supremo Lennart Johansson. And who's in line to get Johansson's job? You guessed it, a certain Scottish lawyer.

### Road to ruin

With its fortunes sagging in opinion polls, Germany's Christian Democratic Union has played the ultimate card - an appeal to autobahn-loving motorists, General secretary Peter Hintze ordered posters outside petrol stations warning that a coalition of Social Democrats and Greens - the most likely government after September's federal elections - could push petrol prices up to DM5 a litre. "Do you want to pay DM300 for a full tank?" asks one poster.

The campaign is meant to embarrass SPD hopeful Gerhard Schröder who's become increasingly exasperated at the antics of the

Greens. Raising petrol prices to DM5 a litre over a decade is Green policy - not SPD. And the environmental party has been losing ground in the opinion poils since their Maadeburg conference which proposed the plan. The hoo-ha has left Joschka

Fischer, the most prominent Green leader, and one of the more moderate, locking off-colour. Before Magdeburg, the 49-year-old was tipped as possible foreign minister in arry "red-green" coalition. At the weekend, Fischer said he had no ambition to be a government minister at all. Perhaps he's run out of gas.

### Beat it

Political passions run high in the household of Guillermo Endara. Panama's former president has left his wife Ana Mee after a tiff over rival candidates in forthcoming presidential primaries.

Endara, it seems, is throwing his not inconsiderable weight behind Mireya Moscoso, the president of his Amulfist party; feisty young Ana Mae is all for the party's rebel candidate Alberto Valiarino. The marital debate must have been rousing. Endara left home in a huff last week complaining of being beaten with a stick by his wife. His frank admission won full praise from Panama's Committee for Mistreated Men.

The latest news is that Ana Mae, who married Endara amid much pomp and finery in 1990 when he was still president, wants her man back home. But perhaps he'd better wait until March 30 - the day after the primaries.

### Financial Time 100 years ago

Canadian Tram Car Companies

Canadian tram car companies or - to give them their more Imposing designation ~ street allway companies are much better patronised by the public han similar enterprises in

During the year ended 30th September last no less than 32,047,317 passengers were carried by the Montreal Street Railway Company, and the traffic is stated to be steadily Increasing.

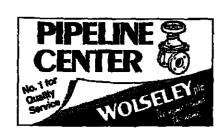
The citizens of Montreal are evidently following the principles of the hale old gentleman who, when asked how he carried his age so well, replied that his rule through life had been never to walk when he could ride and never to stand when he could

### 50 years ago

Whating Fears in Norway Oslo, March 15. Norwegian vhalers express anxiety about the future of whating.

Having regard to the greatly improved "catching material", results of the last season are disquietingly poor when compared with pre-war catches.

Whaling is unusually disappointing this year, a director of the Norwegian Whaling Association has said.



# FINANCIAL TIMES

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MONDAY MARCH 16 1998

THE LEX COLUMN

### Time for a target

The US economy is strong, inflation low and the authority of the Federal Reserve unquestioned. Now is the perfect time to

make sure things stay that way.

One possibility would be for the Fed to move from its vague commitment to price stability to an official target range for inflation. The advantages are increased transparency and coherence of monetary policy. Fed chairman Alan Greenspan may be the world's best central banker on most measures, but his cryptic utterances tend to leave investors operating in a fog.

A clear inflation target would institutionalise policy, making it less dependent on the skill of one individual. This would make the central bank more accountable and freer from political interference. This may not be an issue now, but problems have occurred under a weaker Fed.

It might be countered that an inflation target would reduce the Fed's short-term flexibility. But the figure should not be seen as iron-clad, more as a framework aligning monetary policy with a long-term

There is another potential problem: missing the target could undermine the central bank's authority. As it would also increase pressure on it to improve performance, that should prove self-correcting. Given today's favourable backdrop, there is little debate either in Congress or the Fed on this issue. But it is worth pointing out that even now US 10-year bond rates yield 75 basis points more than German ones. This suggests that a clearer framework for monetary policy could bring tangible benefits for investors. Mr

Greenspan is known to have considered

inflation targeting - if not for himself, then perhaps for his successor.

### Monetary union

The Republic of Ireland's 3 per cent revaluation of the punt is a technical affair. It will do little to rein in an economy stoked up by artificially low interest rates. The danger remains that boom will turn to bust as, within monetary union, the government gives up the tools that

might engineer a softer landing. Greece, on the other hand, must hope that joining the exchange rate mechanism will lead to its sharing some of the benign effects of growth enjoyed by Ireland and the "Club Med" southern European coun-



tries. With the public spending cuts and other reforms announced yesterday, it is paddling hard to catch up.

The devalued currency should be easier to defend, taking pressure off interest rates. Improved competitiveness, provided there is essential restructuring, should be a recipe for growth, as it has been in Spain and Portugal.

But, meanwhile, what will the Germans think of another previously unthinkable country getting close to joining the Euro club? This will do nothing to damp their concerns about a soft Euro and a common interest rate higher than their sluggish economy needs.

#### South Korea

The speed of South Korea's retreat from the abyss has been remarkable. Back at Christmas, with foreign exchange haemorrhaging, it stood on the edge of default. The country's benchmark debt issue traded at a delinquent 1,000 basis points over US treasuries.

Now confidence has recovered to the extent that foreign creditor banks have willingly rolled over 95 per cent of the \$22bn in debt Seoul wanted to restructure. Moreover, more than 80 per cent of the debt was rolled over for two- or three-year maturities, not the shortest one-year

The roll-over does not, of course, provide Korea with new money. But the high take-up rate at least minimises any outflow and provides a platform for a return to the international capital markets. Here the outlook is encouraging; sentiment

CONTENTS

towards emerging markets in general has improved recently, while investors are increasingly willing to differentiate between Asian markets. This augurs well for Korea, where President Kim Dae-jung has been pushing all the right buttons. On current evidence, it should be possible to price the planned sovereign issue at

350-400 basis points over treasuries. Mr Rim, however, can hardly rest on his laurels. He now needs to grasp the domestic debt nettle. With the economy slowing, weaker chaebol will be unable to meet interest payments. Bankruptcies will follow, further weakening the banking system. Foreign capital is crucial to a solution, but it will only come when the chaebol start to restructure in earnest.

#### Political governance

Do dictatorships or democracies deliver better returns? The traditional view among emerging market investors is that the smack of firm government is best particularly where a strong leader like Singapore's Lee Kuan Yew or Chile's General Augusto Pinochet implements market-friendly policies

But the Asian crisis should cause investors to modify this view. Strongman rule can actually make it harder for a country to drink stiff medicine, as Indonesia and Malaysia show. By contrast, South Korea and Thailand, whose governments have changed, are making strenuous efforts to reform their economies. Why is this? Part of the reason is that Indonesia's President Suharto and Malaysia's Mahathir Mohamad simply do not want to sweep away the systems of crony capitalism that serve them so well.

But there are also psychological factors: U-turns typically involve a loss of face. By contrast, a new leader like Korea's Kim Dae-jung can embark on new policies and hope the blame will stick to his predeces-

None of this is to suggest democracies guarantee economic success: they can easily produce indecisive government. Nor does it mean dictatorships cannot perform well - as, indeed, Indonesia seemed to be until last year. The big difference is how the systems respond when conditions turn sour. In Indonesia, for example, it may be hard to remove Mr Suharto without a bloodbath. Investors should apply a higher risk premium to dictatorships.

### India's Hindu BJP asked to form coalition government for the BJP from an essential but 1996 poll. That BJP administration

Atal Behari Vajpayee, veteran leader of India's Bharatiya Janata Party. will be sworn in as prime minister of a BJP-led coalition government on Thursday, after the Hindu nationalists last night received a presidential invitation to form a government.

The formal request from K.R. Narayanan, the president, ended two weeks of political haggling following the indeterminate outcome of last month's elections.

The BJP-led alliance of more than dozen regional parties must prove it has a parliamentary majority by March 28, local news agencies

The BJP has promised to lead a government of "broad consensus" and will this week announce a national agenda agreed among its allies as the basis for government. The 18-year-old party, accused by opponents of being religiously divisive, is likely to tone down many of its militant policies based on Hindutra, a Hindu-based "cultural

nationalism". Mr Narayanan's decision to invite BJP and its allies a narrow majority in the 543-seat lower house of

parliament. Mr Narayanan's move also came after leaders of Congress and the United Front, which formed the ousted coalition government, informed him they could not muster the support to offer a competing claim to govern.

Sonia Gandhi, widow of former Congress leader Rajiv and the party's prime election campaigner, told the president late yesterday that Congress, India's second biggest party, did not "have the numbers" to stake a claim.

Mrs Gandhi was appointed Congress president at the weekend. assuming her first formal party post while becoming the fifth member of the Nehru-Gandhi dynasty to lead India's 112-year-old party.

Mr Vajpayee, the popular and moderate 71-year-old BJP leader. will be sworn in as prime minister for the second time in two years. He headed an ill-fated 13-day adminis-Mr Vajpayee to form a government tration after India's voters also followed a renewed pledge of support returned a hung parliament in the

failed to win enough parliamentary ner. This seems to have given the support to survive. But the renewed backing yesterday of J Jayalalitha, who commands 27 MPs as leader of the AIADMK party based in Tamil Nadu, allows the BJP to claim the support of 267 members.

Though short of a technical 272seat majority, this should grant the BJP alliance a slim parliamentary margin, as 12 MPs belonging to the south Indian Telegu Desam Party, which has indicated its neutrality. are expected to abstain.

Ms Jayalalitha had withheld letters of support for the BJP last week, after Mr Narayanan insisted on documentary proof of the BJP alliance's firm support. She accused the BJP of failing to meet several conditions, including ministerial portfolios for her party and allies.

But Ms Jayalalitha, a BJP ally before the elections, finally agreed to back the Hindu nationalists after four days of talks with BJP leaders, saying she had dropped her ministerial demands. She said her party would participate fully in the BJP

### **Buffett says US stock prices** may not be overvalued after all

Stock prices should not be viewed as overvalued as long as US companies continue to achieve strong return on equity and stable interest rates are maintained, says Warren Buffett, the US investor known as the Sage of

In his annual letter to shareholders in Berkshire Hathaway, the investment company, he said that, if returns on equity "still remain exceptionally high" and interest rates held near recent levels, "there is no reason to think of stocks as generally overvalued", adding: "On the other hand, returns on equity are not a sure thing to remain at, or even near, their present levels."

Previous warnings from Mr Buffett that prices were overvalued have hit the stock market. Through Berkshire Hathaway, the publicly traded investment vehicle, Mr Buffett is one of the largest investors in

In the second of his letters to be

posted on the internet, Mr Buffett investments, including acquiring shire Hathaway, future investment performance was likely to be hindered. "Our rate of progress in both investments and operations is certain to fall in the future," he said. "At our present size, any performance superiority we achieve will be

The 34.1 per cent increase in the per share book value of Berkshire's class A and B shares was unimpressive given the strong stock market last year. "In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world," Mr Buffett said. "Our appraisal of 1997's perfor-

mance, then: Quack." He said: "Prices are high for both businesses and stocks", meaning "we get relatively little in prospective earnings when we commit fresh money". As a result, Berkshire had made some so-called alternative

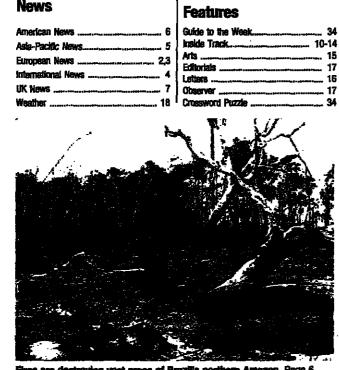
warned that, given the size of Berk- 1112m ounces of silver which produced a pre-tax gain of \$97.4m in

觀問問題發

In February Mr Buffett announced that Berkshire owned 129.7m ounces of silver, approximately 20 per cent of the world's supply. In his first explanation for taking the stake, he said inflationary expectations played no part in his calculation of silver's value. "In recent years, bullion inventories have fallen materially. and last summer Charlie Munger. Berkshire's vice-chairman and Mr Buffett's partner] and I concluded that a higher price would be needed to establish equilibrium between supply and demand."

Coca-Cola remains Berkshire's largest holding. Mr Buffett said he believed the death of Roberto Goizueta, the company's chief executive officer from 1981, who died in October, would not harm perfor-

Markets Week, Page 24



# **Companies & Finance** Global Investor

ondon share service 26.27 28-30 FT/S&P-A World indices

Survey



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### FT WEATHER GUIDE

**Europe today** Southern Italy and Greece will have heavy showers and thundary downpours. Northern Italy and the be mainly dry with cloud and some sunny spells. The Low Countries and Germany will have cloud and drizzle. Farther east, it will again be cross the Baltic States and Finland, South-west Norway and western Denmark will be mostly dry and bright, but eastern rain and hill snow at first. Five-day forecast

Mediterraneen will stay cool and be mostly fine and dry. Central and

tem Europe will be unse with a renewed surge of cold air

moving in from the north on

Wednesday and Thursday. Sun Rain Drain Sun Rain Rain Fair Cloudy Fair Cloudy Fair Cloudy Sun Cloudy Sun Cloudy Drain Drain Lufthansa



### Fact or fiction?

There are two ways to find out the facts about network computing.

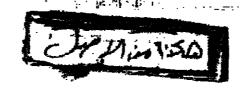
1 Attend one of our briefings.

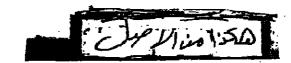
2. Visit our Enterprise Computing Centre to see and use the latest technology.

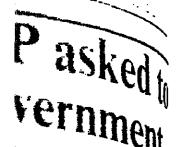
You can achieve either by calling us on 0800 22 88 88 or at www.morse.co.uk.



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UNNAN TO TOUR MUDDLE EAST

TELECOMS TALK More than 100 countries will be represented in Geneva today as the World Telecommunication Policy Forum discusses reforming the rates that elecoms operators pay each other to connect International calls.

Kofi Annan, the United Nations secretary general, will on Wednesday begin a nine-day tour of the Middle East that includes the Palestinian territories. TRADE ON THE INTERNET

The World Trade Organisation on Friday publishes a study on commercial transactions on the internet.

### COMPANIES IN THIS ISSUE

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J.Sainsbury -

### FINANCIAL TIMES

## **COMPANIES & MARKETS**

THE FRANCIAL TIMES LIMITED 1998

pharmaceutical group, has

suffered a fresh setback in its

bid to market Xenical, its long-

awaited anti-obesity drug.

whether the drug increased

A Food and Drug Adminis-

tration advisory panel, which

Kiam, who at the age of 70 has

just become chairman of Ron-

liking the Remington electric

shaver so much that he bought

the company. He wrote about

his climb to the top in a book

In the red corner is Howard

Hodgson, 48, ousted as chief

executive of Ronson last sum-

mer. Last week Mr Hodgson, a

1980s stock market star who

built an empire from a family

funeral parlour, agreed to become chief executive of Coli-

bri Corporation. His autobiog-

raphy is called How to Become

Mr Hodgson, who starts

By Vincent Boland in London

The largest share offering in

this year gets under way today

when an international road-

show begins for the sale of a

24.9 per cent stake in Telecom

Corp of New Zealand, owned

The offering is the first of an

expected rush of big "national"

telecommunications issues

PETER MARTIN

**GLOBAL INVESTOR** 

by Ameritech of the US.

the telecommunications sector

Dead Rich.

entitled Going For It.

the risk of breast cancer.

America.

MONDAY MARCH 16 1998

Roche suffers new Xenical setback

years, has been increased fol-

lowing the withdrawal of the

two most popular new diet

drugs in the US. They altered brain chemicals to trick the

body into feeling full but were

withdrawn because of worries

about heart valve trouble.

Roche's weight loss drug by

fresh evidence. The panel of as a potential "blockbuster" US launch of Xenical was postindependent experts, who that could generate sales of up poned last August after the should cause cancer. There

Roche, whose sales have breast cancer. In November human dose, flagged over the past couple of Roche resubmitted its applica-

PHARMACEUTICALS ANTI-OBESITY DRUG DELAYED AFTER EXPERTS CHANGE VIEW ON CANCER RISK

Roche, the Swiss advise the FDA on drug appli- to \$1hn a year.

after a US panel of experts acting through the gastro-

changed its view about intestinal tract, rather than

had unanimously recom- obese people spend \$30bn a

In the blue corner is Victor lowing their resignations.

cations, was tied five-all over

the weight management drug.

of drugs called fat blockers. By

brain chemistry, it has been

claimed it can cut absorption

In the US, where some 58m

erty rights of the trading sub-

sidiaries of Colibri of London,

which was put into liquidation

For the first time in 30 years

ing from lack of capital for the

ship in North America.

in February.

of fat by about 30 per cent.

Xenical is the first of a class

The FDA, which does not

need to follow the advice of its

expert panel, is expected to

make a decision on whether

Roche can market Xenical by

FDA application for Xenical

last summer its non-voting

FDA requested more informa- has been no cancer in rats that

www.financewise.com The revolutionary Web search engine for banking and finance professionals

**Banks** 

struggle

to finance

buy-outs

By Simon Davies in London

A record number of European

leveraged buy-outs over the

past six months has left inter-

national banks struggling to

absorb a mountain of acquisi-

The withdrawal of Asian

banks from the syndicated

loans market means a smaller

number of banks are faced

The deadlines for some deals

Since the fourth quarter of

Banks have had more deals

Bankers Trust has finally

syndicate is close to half the

The William Hill deal was

not helped by the fact that

some banks were unwilling to

lend to the gambling industry,

which has a tarnished reputa-

tion in some European coun-

The industry has also been

volatile, raising concerns over

its ability to fund a highly

leveraged transaction. William

Hill is understood to have pro-

size that had been planned.

### INSIDE

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#### Alcoa bids to expand on two fronts

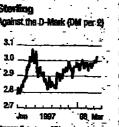
Aluminum Company of America is the world's largest aluminium producer. Just how much bigger does it intend to become? Last week it made a \$3.8bn bid for Alumex, the number three aluminium producer in the US, and it has teamed up with Canada's Alcan group to bid in the privatisation of the Venezuelan aluminium industry. Page 21

#### Mendelsohn takes global view



Robert Mendelsohn (left) has wasted little time since becoming chief executive of Royal & Sun Alliance, Britain's biggest insurer. He has orchestrated a shake-up to raise the group's profile in commercial insurance and ncrease its share of personal financial services. He said: "We're not thinking of ourselves as a UKbased composite insurer any more, but as a global provider of financial services. Page 20

#### Traders watch drachma and sterling The Greek drachma Joins



the European exchangerate mechanism today and it could prove a votatile debut. Traders will also be watching sterling closely to see if it rises or crashes. UK data expected this week suggest the former. The pound ended last week at its best level since August 1997 above DM3.03 against the

#### **INTERNATIONAL BONDS** Investors cross 'final frontier'

Assets denominated in local currencies were seen as the "final frontier" in emerging market investment, This frontier was crossed by a growing number of investors in last year's buil market when trading in local instruments rose 18 per cent. Page 22

#### **EMERGING MARKETS**

Rating agencies disagree on Russia Last week, Fitch IBCA credit rating agency confirmed its BB+ long-term foreign currency outlook for Russia. But rival agency Moody's downgraded Russia's sov-

#### ereign debt reting to Ba3. Page 23 **MARKETS THIS WEEK**

New York

Economic data are expected to show the Asian crisis is beginning to affect the US trade position. Page 24

There is little doubt about this week's main event for UK financial markets - tomorrow's Budget. Page 24

Tokyo will be watching for news about more specific government plans to stimulate the economy. Page 24

Investors have their sights set on 5,000 points for the DAX blue chip index. Page 24

### FT GUIDE TO THE WEEK

- full listings Page 34



### Chance for gain amid pain Revaluing the Irish punt on Saturday was the last easy adjustment Europe's

peripheral economies will be able to make in the process of monetary union. With bilateral exchange rates for the 11 likely members now effectively locked forever at their present values, the burden of economic adjustment to life under a single monetary policy will fall

directly on economic activity. To macro-economists, this is a worrying outlook. Paul De Grauwe of the University of Leuven in Belgium, writing in the FT last month, compared the potential impact of the euro on economies such as Ireland and Spain with that of the Asian boom and bust. The periphery is growing rapidly. and should have higher interest rates than the slow-growing core. But because Germany and France between them account for more than half the euro-zone's GDP, interest rates for the single currency are likely to be set to reflect their economic conditions rather than those of the smaller countries on the edge of the area. Interest rates will fall in the periphery when

Ireland, Spain and Portugal will boom. Asset prices will rise rapidly. As in Asia, there will be excessive accumulation of private-sector debt. Wage rates will start to converge with those in the higher-cost core. Companies exporting to other euro-zone members will suffer. In time, banks will incur heavy losses from unwise lending. As Edmond Warner and James Montier of | of Ireland to continue with its

they should be rising.

NatWest Markets argue, Europe's hot spots "should be treated with care if investors achieving price stability".

among investors for more Boston, the investment banks,

shares in the sector after a are joint global co-ordinators

number of large deals last for the issue. About 60 per cent

Ameritech's stake in TCNZ, international investors. New

which it acquired when the Zealand and Australian retail

New Zealand government pri- investors are also being allo-

vatised its telecommunications cated about 60m of the 430m

monopoly in the early 1990s, is shares on offer.

worth about US\$2.2bn. The US

group is selling so that it can

concentrate on expansion and

are to avoid yet another financial bust". That's certainly a prudent view. But, argues Albert Edwards of Dresdner Kleinwort Benson, there are also significant investment opportunities in what he calls the "Euro-Bubble" economies. Remember, the devastating aspect of the Asian crisis was independence. the currency collapse that Saturday's meeting also followed the realisation that the exchange rate was

unsustainable. Inside a currency union such as the euro, this risk does not apply. Instead, adjustment will take place as wage rates rise and export sectors lose competitive advantage. This will be a slow and painful process. But in the meantime, there will be hig itself to the same forces. profits to be made investing in

any company able to take advantage of rising consumer incomes and asset prices. Companies supplying tradeable goods will be squeezed by foreign competition. The trick, says Mr Edwards, is to look for sectors insulated from this: construction, retailing, retail

banks and property.

Soaring Dublin property prices tell the story already. And Saturday's EU communiqué showed Ireland grappling with the pressures created by joining the euro. In a splendidly fronic phrase. Europe's finance ministers and central bank governors gave an approving nod to "the intention of the Central Bank

present monetary policy orientation, which is aimed at

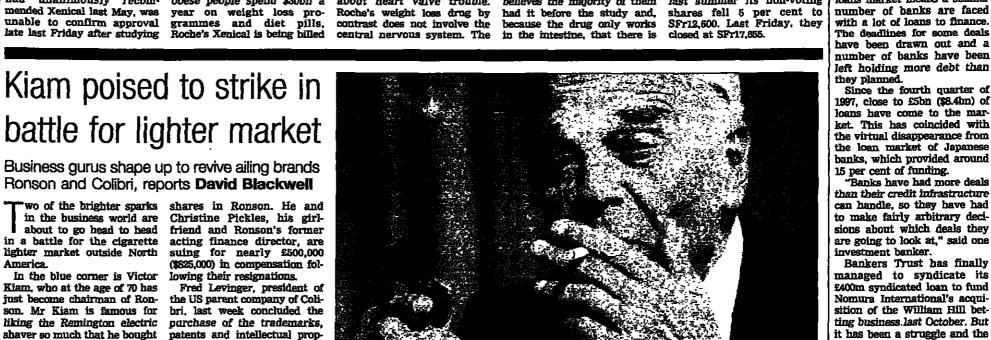
That intention has a lifespan of no more than nine months since the Irish central bank loses control over monetary policy from the end of the year when the European Central Bank takes over. Saturday's revaluation marked the last exclusively Irish act in the country's brief history of monetary and exchange rate

ensured that those searching for Euro-Bubble stocks now have another candidate: Greece. By joining the exchange rate mechanism. as an explicit precursor to trying to qualify for the euro by 2002, Greece has signalled its enthusiasm for subjecting

I should end with a caveat. This style of analysis is essentially national in focus, and will at some point prove outdated. The single currency and the single market will lead to true pan-European businesses, muffling the impact of local developments on corporate profits. Immobile assets, such as property, will boom or bust along with national conditions. So will second-tier stocks, domestically focused. But once the European rationalisation process is complete, big companies will be largely

It may take a generation to reach that peaceful state, however. In the meantime expect a bumpy ride. peter.martin@ft.com

immune.



Its potential importance to tion on possible links with have received 730 times the

tion and restated its belief that

any connection with breast

cancer was a statistical quirk.

Although a number of women who took Xenical in

Roche's original studies had

breast cancer, the company

believes the majority of them

had it before the study and,

challenge," he said. "It is hard turbo model, you can't blow it which was making losses ledge of this business."

the Colibri name is owned by a Mr Kiam has met Mr Hodgsingle company. The Ronson brand is under separate ownerson, thinking there might be Mr Levinger, who believes some business to be done with that Colibri has been suffocat- his travel accessories company. But all he will say about the Colibri challenge is that he past two years, is delighted welcomes competition.

that Mr Hodgson has agreed to build Colibri back into a world He is already lighting bis work at Colibri today, still brand. "He and I got together, unending cigarettes with a

of the shares are to be sold to

The TCNZ transaction, the

biggest out of New Zealand, is to be payable after a year, will

expected to be completed and be set when the transaction

to find people with a know- out," he says, blowing fiercely when he led a highly leveraged son while he was still at Ron- features that no-one knows for market share with other about - but what a brand!"

> It is planning a 7-for-1 rights particularly the disposables. issue to raise £6m, and Mr Kiam is preparing to invest what he calls a sizeable sum.

to begin trading on April 6.

which the shares are to be sold

issue closes, has already been

set, and the final instalment,

at a roaring flame. "These management buy-out in 1979. products have some very good Where Remington was fighting Ronson has estimated its as razor blades. Ronson is fac-

company that gets the same respect as other companies He feels there are many sim- that I am associated with," he owns almost 3 per cent of the and he decided to accept the Ronson lighter. "This is a ilarities with Remington, said last week.

shaver manufacturers as well total losses last year at £7.5m. ing other lighter companies, "I would like to build it to a

duced profits before interest and tax of close to £78m last year, compared with £51m in 1996, but many bankers still failed to bite. Ameritech gets NZ telecoms sale show on the road

#### Bankers have been helped by a rising appetite for Euro-pean junk bonds, which have been used as an alternative for real test of continuing demand Lynch and Credit Suisse First April. TCNZ is listed in New pledged to pay a full dividend among investors for more Boston, the investment banks, Zealand and New York, and on the part-paid shares, which funding buy-outs. on the part-paid shares, which

Most US investment banks have been trying to build up a high yield bond market in a yield of about 9 per cent. But Europe, to exploit the advan-Unusually, the price at the two-tier payment system means that a maximum of 20 tage of their domestic experwill be payable in two instal- per cent of the issue can be

ments. The first payment of sold to US investors because of However, the nascent junk NZ\$4.70 a share, due when the restrictions on such listings by bond market is also suffering from a spillover from the US. where cash inflows into mutual funds have failed to keep pace with the build up of high yield issues.

### this year. It will be the first acquisitions in Europe. Merrill fully priced in the first week of closes. However, TCNZ has

the shares being sold are due analysts estimated would give

### Congratulations! Winners of the PLC Awards 1997:

the Securities & Exchange

Friday at NZ\$8.55, up 25c, in

Shares in TCNZ closed on

Commission.

New Company of the Year: **Holmes Place PLC** 

(Equity finance provided by NWEP to fund expansion in November 1996)

International Award: **Games Workshop PLC** (Equity finance provided by NWEP for the MBO in December 1991)

Entrepreneur of the Year: Chris Swan, Finelist PLC (Equity finance provided by NWEP for the MBO in November 1991)

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**NatWest Equity Partners** 

# Hermes links with US governance activists

By William Lewis and Jane Martinson in New York

The first institutionally groups will launch a fund backed fund in the UK which will target underperforming companies is poor share performances and launched today in the latest sign that the US trend for corporate governance activists to invest in companies is taking hold in the UK.

Hermes Pensions Management, one of the UK's largest pension fund managers, is teaming up with Lens

Investment Management, received initial committee The Focus Fund will be the US corporate governance ments worth £100m (\$167m) managed by a new company, investment group. The which will invest in large UK public companies with questionable corporate governance structures.

The fund will aim to press executives at selected underperforming companies to make changes in order to boost the share price and dividend performance. Hermes says it has already

for the fund, which will be known as the Hermes UK Focus Fund, and that the fund's size could eventually in the summer. HLAM will reach £500m.

Calpers, the largest US mes. public pension fund, recently announced it intended to invest in UK Active Value. an activist management group based in the UK, but Hermes is the first UK institution to launch an activist

At any one time, the fund is likely to own up to 10 per cent of the shares of approximately 10 companies.

ment, marketed to UK and In an interview, Robert Monks, chairman of Lens Investment Management. said companies on the fund's hit list could include BICC and Rolls Royce, where perlate change in companies in formance had suffered in the top 350 with hidden

In the US, Lens Invest-

companies including East man Kodak, Sears Roebuck and Waste management International. Tactics employed by Lens include calling for management departures and joining the boards of recalcitrant companies to effect change.

Over the past five years the Lens fund has achieved a nominal compound rate of return of 26 per cent to July ment Management operates 31 last year, compared with an active value investing a 21 per cent return for the fund which has targeted S&P 500.

### COMMENT

### IT stocks

stocks have brushed aside knownation Technology the profit warnings that have afflicted their US brethren. The FTSE Information Technology index, born two months ago, has scarcely stumbled in its upward march, rising 40 per cent so far. Yet its constituents trade

on ratings that look stretched. Share prices for many of them are more than 30 times this year's expected earnings - 70-80 per cent higher than the market average. This does get some underplaning from IT earn- same a

ings growing at a fair clip of more than 20 per cent, but alarm bells should sound. Computer programmers' wages are rising 15 per cent a year. So far, companies have been able to pass on those extra costs. But at some point, customers will balk and margins will come under pressure. A further concern is that while earnings growth for the sector looks assured for a few years - thanks to the millennium time bomb and European monetary union - it is likely to slow thereafter.

These are valid points. But the bulls believe it unlikely earnings growth will slow to a more pedestrian level of, say, 10 per cent after 2000. Millennium gremlins may linger, the Emu project will have further to run, and other, deferred, IT work will kick in. While it takes an act of faith to believe the sector can keep growing at its present rate, heavy braking looks equally unlikely. The bears should hold off.

#### Company taxation

The devil in the Budget is often in the detail. One measure that will have every finance director and accountant rifling through the small print is the new method for corporation tax payments. An updated system will, of course, be a welcome replacement for advance corporation tax, made redundant by the rupturing of the link with dividends and the internationalisation of company earnings.

Most crucially, companies will be looking for a compro mise on how they are to assess themselves for tax. The original proposal was for them to forecast their annual profits, and then to pay four equal quarterly instalments starting about half-way through the year. While companies will inevitably have to pay more tax sooner, with the final deadline brought forward six months, forecasting remains too much to swallow.

Whether or not the Inland Revenue is leak-proof, it would be uncomfortable for quoted companies to be conducting formal forecasting exercises but keeping the stock market in the dark. There have been hints of a compromise which would allow some payments to be based on the previous year's profits. Companies will be disappointed if this does not apply to at least the first two instalments.

The extent to which the Labour government has listened to corporate complaints about its original proposals will be a good test of how business-friendly it really is

### Global presence makes commercial logic

### Christopher Adams profiles the

chief of Royal & Sun Alliance

obert Mendelsohn has wasted little time since taking over as chief executive of Royal & Sun Alliance in December. Sensitive to criticism that

Britain's biggest insurer lacked direction under the dual leadership Richard Gamble and Roger Taylor, cratic, unresponsive and he has orchestrated a unprofitable division concenshake-up designed to raise the group's profile in commercial insurance and boost its share of personal financial services.

Decision-making will be devolved to overseas branches and the group has been organised into three time zones - North America. Europe and Asia - each with its own locally-based boss. Executive directors have also been appointed with responsibility for investment management and customer

service. "This is about psychological change," says US-born Mr Mendelsohn

"We're not thinking of ourselves as a UK-based composite insurer any more, but as a global provider of financial services. We have two different kinds of customer business and personal - and we're trying to organise ourselves around their needs. Multinationals, for instance, buy insurance on a global basis, but co-operation between our own businesses

**Airtours** 

launches

loyalty

scheme

Industries Correspondent

Airtours, one of the UK's

largest package holiday com-

panies, is to become the first

tour operator to operate a

customer loyalty scheme by

offering points which can be

redeemed to reduce the price

The scheme, which will be

introduced later this month,

is aimed at promoting brand

awareness in a notoriously

price-conscious industry.

Too many choices are made

on the basis of price or desti-

nation rather than the

brand," said Richard Car-

He also said the group's

market research had shown

people wanted to receive

The loyalty scheme com-

prises a discount card

offered to the group's cus-

tomers while on holiday giv-

ing reductions at local and

UK outlets. It also includes

the offer of an Airtours Visa

credit card provided by Ben-

eficial Bank. The Visa card

accumulates points which

can be redeemed against the

price of an Airtours holiday.

Airtours said the average redit card holder, spending

£3,000 annually with their

card, was likely to accumu-

late points worth a £50 Air-

tours boliday discount.

more holiday information.

rick, marketing director.

By Scheherazade Daneshkhu, Leisure

of future holidays.

around the world has not

sohn forced through while head of US operations at the old Royal Insurance. There, he transformed a bureautrating on small, local businesses into one that successfully tapped Royal's global presence to attract bigger clients

cult market in which to operate, he says. Potential acquisition targets are attracting much interest. and the group may not find one that meets its criterion of a 10 per cent net real return on investment. It carried out preliminary due diligence on Gan, the French state-owned insurer that is to be privatised, but dropped out of the running last month.

purely domestic customers try where every culture is and the personal market, I'm not losing any sleep over

Robert Mendelsohn: 'This is about psychological change'

He says the group is pre pared to quit unprofitable areas and is reviewing its direct selling operations in continental Europe. In part, this has been spurred by the unexpected need to strengthen reserves against claims in the Italian motor business, where Royal set up a telesales operation four

France and Germany.

different.'

In the US, where Royal & Sun Alliance is already well represented in commercial lines but less so in personal, Mr Mendelsohn accepts it may not have the capital resources needed to become a significant force in personal financial services. Anyway, he says, insurance is about the spread of

risk. To this end, the group has been building its presence in Latin America and "We'll be getting out the Pacific rim. "As you get a spread of business round the world, the odds of every lines, we'll be a regional thing going wrong at the

### **NEWS DIGEST**

### **LEISURE**

### **Menzies Hotels seeks** £15m in April flotation

Menzies Hotels, a 21-strong chain founded on the purchase of hotels from receivers, is coming to the London market next month. The group, which is aiming to raise £15m (\$25m), is expected to have a market capitalisation of about 250m.

Nick Menzies, chief executive, started the company in 1992, and has bought more than half its mainly three-star hotels from receivership. He said yesterday that £6.3m of the money raised would be used to purchase four hotels leased to the group by the Royal Bank of Scotland, while S3m would redeem preference shares and £5m of a £12m debt total would be repaid.

The group, which made pre-tax profits of £3.1m for the year to January 31, Invested £5m last year and expects four hotels to be upgraded to four-star status. Mr Menzies is selling \$200,000worth of shares, and is expected to have about 35 per cent stake after flotation. RBS will retain about 16 per cent. David Blackwell

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### INSURANCE

### Cornhill suffers 5% decline

Comhill Insurance, the UK subsidiary of Germany's Allianz group, suffered a 5 per cent profits decline last year, following the 16 per cent fall in 1996. Ray Treen, chief executive, described the prospects for UK general insurance this year as "not promising. Competition is more intense than ever and profit margins are still declining in many lines of business."

Pre-tax profits were £58.8m (£61.6m), while net premium income rose 5 per cent to £703.7m. While profits on general business fell from £30m to £25.5m, the life business improved from 25.9m to 28.4m. The group said new business in the smaller life assurance arm rose 26 per cent. David Blackwell

### OIL AND GAS

### Monument Oil funding

### Emerald Energy raising £3.4m

of 52m shares at a price of 6.75p through WH Ireland and working capital to a more prudent level\*. Virginia Marsh

### Memo may hit tobacco shares

Shares in Gallaher and Imperial Tobacco, two of Britain's biggest cigarette companies, could come under pressure today after weekend revelations that Gallaher executives knew of the dangers of cancer from smoking years before acknowledging cigarettes could damage smokers

The findings, in the form of a confidential 1970 internal memo from Gallaher's general manager of research to its managing director, could weaken the position of the company in the court action being brought by 53 British hung cancer victims.

After the failure of an attempt to derail the case on procedural grounds, the action will gather pace on Anril 3. when a judge will be named and a timetable set out. The trial is expected to start next year.

In the confidential memo. Gallaher's research manager reviews two experiments using beagles to assess the potential carcinogenic effects of smoking. He concludes the research "would appear to remove the controversy regarding the causation of the majority of human lung cancers". The work done "proves beyond all reasonable doubt the causation of lung cancer by damages would not be matesmoke"

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European Investment Bank

ITL 1,000,000,000,000

Floating rate notes due December 1998

The notes will bear interest

16 March 1998 to 15 June

1998. Interest payable on 16 June 1998 will amount to

ITL67,698 per ITL5,000,000

Agent: Morgan Guaranty Trust Company

note and ITL676,971 per

TTL50,000,000 note.

**JPMorgan** 

at 5.35625% per annum from

B.A.T. International Finance p.l. Windsor House, 50 Victoria Street, London SW1H 0NL

Clive Bates, director of Action on Smoking and Health, an anti-smoking lobby, said: "The evasions and weasel words on smoking and lung cancer have to stop. It really is disgraceful, especially now their own documents reveal they have known with absolute clarity since 1970 that smoking

causes lung cancer." Gallaher was not available for comment. Imperial Tobacco said: "Any document like this has to be seen in the context of the many, many documents on the subject. One would need to look at all of them to put things

into context. A senior cigarette industry spokesman said anti-smoking lobbies seized on any damaging material on smoking, but ignored potential

contradictory evidence. Gallaher, after announcing profits of £337.2m (£301.9m) for last year, said last week its legal advisers believed it had "meritorious defences to the actions and claims against it.

"Gallaher believes that the pending actions will not have a material adverse effect upon the results of the operations, the cash flow or financial condition of the group," it said. But the group said there could be no assurance it would not incur damages, or that any

Dated: 16th March, 1998

BANK OF GREECE

Floating rate notes 2003

The notes will bear interest

at 6.46875% per annum for the period I I March 1998 to

11 September 1998. Interest payable on 11 September 1998

per US\$1,000 note will amount

Agent: Morgan Guaranty Trust Company

**JPMorgan** 

US\$300,000,000

B.A.T. INTERNATIONAL FINANCE p.l.c.

NOTICE

to the holders of the outstanding

Due 2005 of the Issuer

(the "Bonds")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that, at the adjourned Meeting of such holders convened by the Notice published in the Financial Tones on 24th February, 1998 and held on 12th March, 1998, the Extraordinary Resolution set out in such Notice was duly passed. Accordingly, the proposal for early repayment of the Bonds referred to in the Extraordinary Resolution has become effective and the repayment price of the Bonds is £1,121.54 per £1,000 in principal amount of the Bonds. Payments of the repayment price and accrued interest will be made subject to, and in accordance with, such proposal and Condition 7 of the Terms and Conditions of the Bonds on presentation and surrender of the Bonds and Il unmanuted interest councils sometimes thereon as the specified office of cither Paying

coupons appertaining thereto at the specified office of either Paying Agent on or after 18th March, 1998.

been good enough. The latest shake-up bears

Hermes Lens Asset Manage-

US institutions and launched

be 75 per cent owned by Her-

"The objective is to stimu-

shareholder value," said

Peter Butler, corporate focus

director of Hermes and chief

executive of the new com-

the hallmarks of a minor revolution that Mr Mendel-

There are differences how ever. He is not looking only at commercial insurance and the group is likely to seek acquisitions.

France has become a diffi-

"With the European strategy, you have to think about your ability to sell products everywhere in the community. In commercial lines, we can write business through brokers. While we are miss-

State Street Global Advisors

est investment management

will today announce the

launch of a London-based

service targeted at very high

The group aims to attract

that it runs in the US has

SSGA, set up in 1978 as the

fund management arm of

now manages about £235bn for institutional clients. Its

sister company. State Street

Bank & Trust, has more

than £2.400bn under custody.

\$12bn under management.

net worth individuals.

years ago.

of places where you can't make money. In personal ing the ability to service player, looking at each coun- same time are very thin."

State Street to offer asset

service to UK's wealthy US targeting extremely well as a range of more con wealthy investors, with portventional products, such as of the US, the seventh larg- folios worth millions, rather index funds" said Nigel

Wightman, managing direc-

such as JP Morgan, which

investment banks and stock-

brokers are not perceived as

James Palmer has been

Mr Wightman identified

tor of SSGA UK.

than hundreds of thousands, organisation in the world. of pounds. Chris Hynes, executive vice president of State Street the main competitors to Global Advisors, said: "Indi-SSGA's new service as other viduals worldwide have big hedge fund managers amassed significant wealth and a few private banks. substantial amounts of recently due to strong US money - a similar service and European capital mar- also target very high net kets. This has prompted worth clients. Most UK many investors to seek complex, tax-efficient investment

strategies to preserve and State Street Corporation, grow their wealth." The company plans to develop a range of products, including hedge funds, spe-

being competitors. appointed director of sales for trusts and investments in the UK. He was previously a

### cifically for its new service. sales director at LCF "We have a range of hedge Edmond de Rothschild Fund The new service is SSGA's fund products that we are Management.

terday. But the City is likely

to be pleasantly surprised by

news of the potential deal, as

BTR was understood to be

BTR is in negotiations with

The deal, which could be announced as early as this week, would almost complete the transformation of ate to a focused engineering

Neither BTR nor the venavailable for comment yes- 187p on the day.

By Andrew Edgecliffe-Johnson

Directors of Lonrho are

hold on to their stakes in

later this spring.

planning a flotation. The only disposal still to be done would be the US strong pound. building products division. Earlier this month, BTR sold off its glass and plastic

bottling business to Owens-Illinois of the US for £2.2bn. News that the better-thanexpected sale price would allow BTR to hand back £2bn to shareholders helped ture capital group were to lift the shares by 25%p to

A few days later analysts cut their forecasts for this year by 5 per cent, when the group warned that it was still suffering from turbulent developing markets and the

But the shares recovered from the setback, and closed on Friday at 195%p, after ris-Profits before tax and

exceptionals fell last year to £1.06bn (£1.26bn), in line with expectations. The damage to profits was more limited in the four core engineering divisions.

Monument Oil and Gas, the independent explorer, has agreed to fund BP's share of an exploration programme in three North Sea blocks, in return for some of BP's equity in the blocks. Under the agreement - which is subject to government approval - Monument will fund up to four wells in return for 50 per cent of BP's equity in the blocks. Virginia Marsh

Emerald Energy, the oil and gas explorer based in the Isle of Man, said it was having to raise funds following delays and technical difficulties in Colombia. It was making a conditional placing Teather and Greenwood to raise £3,4m net. This would "restore

### BusinessWeek

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• Can Mitsubishi Motors recover?

- Hot Growth Companies: Small
- Telefonica: Will it get the global

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## BTR in talks with CVC Capital about disposals

By David Blackwell

CVC Capital Partners to sell its Australian building products division and its Formica laminates operations for about £650m.

the group from a conglomer-

Mr Carrick said 30 per cent of those on an Airtours holiday had booked a similar holiday with the company the previous year. In any year, 60 per cent of its customers had taken a holiday with the group previously
Although the repeat business was relatively high, Mr
Carrick said this tended to

though not necessarily a turbulent weather in several

the UK - rather than because of a decision to book with Airtours. Thomson, the UK's largest package holiday group, agreed that loyalty schemes were a valuable way of building a long-term relationship with customers. The schemes can take dif-

be due to the group's size -

it sells 3m holidays a year in

Keep Lonrho Africa shares, directors say

the new company's value when its shares are listed advising shareholders to independently in May. dealerships, hotels and agri- trend and outlook had been tioned the timing of the are doing is giving sharedemerger, as Lonrho Africa's holders the assets and earn-

Such factors could depress

Sir John Craven, Lonrho's Lonrho Africa, when the col- chairman, said: "I suppose if lection of African motor Lonrho Africa's earnings cultural assets is demerged strongly upward it would have been slightly nicer." He Some analysis have ques- stressed, however: "All we

expect something from us. | year by political unrest and own in a different form."

Robin Whitten, finance ticularly from South African with the Inland Revenue for hold on to his shares in Lonrho Africa. Terence Wilkinson, the director in charge of Lonrho mining, added: "Who

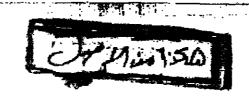
would dare sell?" Analysts have speculated price on a diverse portfolio tries could mean that Lonferent forms and you can profits will be depressed this ings stream they already rho Africa is undervalued. ing it with 6.1 pr cent. Such circumstances could

Lonrho took two significant steps towards its goal of shareholders. becoming a focused mining company on Friday, with the R1.38bn (£167m) acquisition of the Tavistock colliery in that caution among London South Africa and the agreeinvestors about how to put a ment to buy back a 21 per cent block of its shares from of assets in 14 African coun- Anglo American, the South African mining giant, leav-

the demerger to be treated as a tax-free distribution to

The parent company, which will span coal, platinum and gold mines once it has sold Princess Hotels, is expected to drop the Lourho Dame

. It said the name, which refers to the group's origins as the London and Rhodesian Mining and Land Com-Lonrho has agreed to pany, no longer reflects its Sir John joined Nick More encourage a bid for some or inject £48m into Lonrho activities, but the board has turbulent weather in several Sir John joined Nick Mor- substitute of its sub-Saharan markets. rell, chief executive, and all of the new company, par- Africa, and has won a battle yet to decide on a new title.



Sabie c ide out



# Stora says efficiency gains will boost profit get \$650m Thai steel group to get \$650m Alcoa bids to expand on two fronts the Alumax offer will not affect Venezuelan plans, write Raymond Colitt and Nikki Tait gas and minerals. The Growth smeller

Stora, the Swedish forestry group, is to launch an efficiency drive it predicts will help double profits in the next two to three years and boost its competitiveness in a globalising industry.

Björn Hägglund, Stora's organic growth, would generate annual savings of SKr3.5bn (\$443m) by the end of 2000 and lift return on capital from 7 per cent to 13-14 per cent.

Mr Hägglund, who succeeded Lars-Ake Helgesson as chief executive last week, stressed his priority was on streamlining Stora's existing operations a large Nordic paper group. rather than participating in the consolidation currently sweeping the international pulp and paper industry.

Berggren, Stora's chairman key rivals. until last week, that the company needed to merge survive in an increasingly global sector.

"Among forest products and return," Mr Hägglund strong productivity said in an interview with the Financial Times.

"Concentration can be positive, but it isn't always so intensive investment in new easy to create long-term value for shareholders via this route."

Stora shares have risen sharply in recent weeks on 5 per cent of Stora's mills speculation of a merger with were non-core. performed the Stockholm

He distanced himself from ating performance has recent comments by Bo lagged behind that of many

Mr Hagglund acknowledged that Stora's average with a big rival to provide return on capital employed the critical mass needed to of 7.5 per cent in the past five years had been "too bad", but be made clear a big merger was no guarannew chief executive, said the companies there is no apparmeasures, combined with ent connection between size said potential existed for

> increases at Stora's mills. He said the company would refrain from capitalplant in the next two to three years to concentrate Mr Häggiund said around

Buyers would be sought The stock has under- for these operations, which

include specialty papers and bourse since 1989, during the production of fine paper which time the group's oper- from recycled pulp.

> Steel Dynamic and a fund controlled by Mr Soros have participated in a \$50m injection of fresh equity. The new investors have ring-fenced operations from its parent,

injection

By William Barnes in Bangkok

Foreign investors, including

the financier George Soros,

will inject a total of \$650m

into the new Thai steel pro-

ducer Nakornthai Strip Mill.

kind since Thailand's slow-

ing economy was hit by the

baht's flotation and subse-

Investors are calculating

that the cash-strapped but

modern steel company will

be able to export its way into

profit and later sell its out-

put on the domestic market

when the big local vehicle

The deal could be seen as

a turning point in the finan-

cial recovery of Thailand,

said David Stickler, manag-

ing director of corporate

finance at MacDonald and

It involves \$450m in high-

yield bonds and about \$150m

of senior secured financing.

The Enron Corporation,

Company Securities.

quent fall last July.

industry revives.

It is the biggest deal of its

the NTS steel group, which last year defaulted on a eurobond payment. Analysts said the deal was

a welcome vote of confidence in Thailand but a slightly surprising choice. The mill is essentially a

greenfield project without a track record and starting out with a fairly heavy debt burden, said Sriyan Pietersz, head of research at SocGen Crosby in Bangkok.

About \$270m of the new money will help finish the Eastern Seaboard steel plant, which has an eight-year contract to sell steel, at floating prices, to in the Middle East/North the German traders Africa region at around 9 per | Preussag Handel and Klockner Steel Trading.



Market

America is the world's largest aluminium producer. Just how much bigger does it intend to become?

Last week, Alcoa announced a \$3.8bn bid (including debt) for Alumax, the number three aluminium producer in the US. Yet, while discussing the deal with analysts, Paul O'Neill, Alcoa's chairman, made clear it would not impinge on the Pittsburgh-based company's participation in the privatisation of the Venezuelan aluminium industry. It has already teamed up in a consortium with Canada's Alcan group, and the duo is regarded as the likely "lead

dog" in the bidding. "I don't want you all to think we've closed up shop here." said Mr O'Neill. "We and Alcan are doing due diligence on the Venezuelan aluminium assets, I don't want you all to think we're not a player - a powerful player - for that."

If Alumax is a chunky business, the Venezuelan operations are no minnow. Corporación Venezolana de Guayana (CVG), the state holding company, is looking to sell a 70 per cent stake in its integrated aluminium complex, which takes in two smelters and a carbon anode producer as well as bauxite

mining and reserves.

The combined production capacity amounts to 635,000 tonnes a year at present, or some 5 per cent of world production in 1997. Moreover, a long-shelved project could add a fifth production line at a cost of \$400m at one of the two smelters. This would boost total production capacity by 200,000 to 835,000 tonnes a year.

Venezuela is also one of the lowest-cost aluminium production sites because of

CVG complex has an estimated value of \$2.5bn to \$2.7bn.

The downside is that it is Aluminum Company of saddled with \$1.25bn of debt. of which \$630m is owed to international creditors. including France's Paribas and Germany's KfW.

However, on the remain-

ing \$620m owed to the government, the winning bidder will have to pay only interest (at 300 basis points above US Treasury bills) during the first four years, before amortising the capital. That debt has not been serviced for seven years. Back in the US, analysts

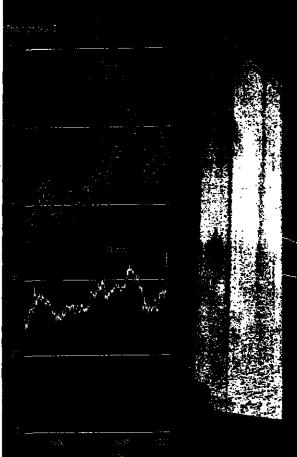
were quick to question whether the anti-trust issue might prove a more serious obstacle to the Alumax takeover. After all, just three months ago, the Justice Department blocked Alcoa from acquiring a single rolling plant, producing sheet aluminium to make beer and soda cans, from Reynolds Metals, the number two US producer.

The \$250m deal, it said, was a "classic case of a highly-concentrated industry becoming even more concentrated. Now Alcoa wants to take over the industry's number three company in its entirety - superficially, an even more ambitious move.

Still, not everyone is downbeat about the regulatory prospects. Thomas McNamara, analyst at CIBC Oppenheimer, said the Reynolds problem arose in the context of the can sheet segment of the industry, which is highly-concentrated and not significantly affected by

the Alcoa/Alumax deal. The merger would not appear to trigger problematic industry concentration levels in terms of total US capacity, he estimates, nor even in the soft alloy extrusions segment where Alu-

max is a market leader. The one area that analysts do see as a potential problem its cheap hydro-electricity is the cast plate market. Alu-



max is the market leader and Alcoa a significant second - but here, regulatory concerns might be assuaged

by selective disposals. Perhaps most interesting is whether the authorities feel a need to consider the Venezuelan deal (assuming the Alcoa/Alcan consortium wins) and the Alumax deal simultaneously.

These transactions would follow Alcoa's purchase last year of Insepal, the Spanish company also sold in a government privatisation, and come when it is still sitting on spare smelting

Michael Kelley, at George Mason University, said these acquisitions would take Alcoa's market share of global primary production to about 29 per cent, almost double last year's figure.

The Venezuelan privatisation agency, FIV, has few concerns about anti-trust rulings if the Alcoa-Alcan consortium wins the bid. "We do not see it as an immediate concern," said the FIV's Gretty Suarez, adding that it had received a communiqué from US antitrust authorities, allegedly signalling its endorsement of

### Sabic confident it can ride out Asian downturn

Saudi Basic Industries Corporation, the state-controlled petrochemicals group, is better positioned than rival producers in leadride out any downturn arising from economic problems managing director.

Last week Sabic, which ane cracking. accounts for about 5 per cent. of world petrochemical outcent rise in 1997 profits to in the US and Far East.

Sabic's profits have yet to to push sales of ethylene reached in 1995, but sales have risen 37 per cent over prices. \$4.7bn in 1994 to \$6.4bn last are its easy availability of

ies Hotels seek

in April flotation

cent on 1996.

to 23.7m tonnes.

Mr Bin Salamah said Sabic, which is 70 per cent the Saudi stock exchange, benefited from its ready in Asia, according to Ibra- access to plentiful feedstocks him Bin Salamah, Sabic and cost-effective production technology, especially in eth-

Bearish analysts said Sabic could be vulnerable to put, announced a 4.5 per increased ethylene capacity But Sabic has the ability

recover to the record \$1.68bn derivatives into Asia and Europe at competitive

Sabic's built-in advantages

cost which it has been pay-Output over the same ing to its supplier Saudiperiod has risen 13 per cent Aramco, the state hydrocarbons company.

Since January 1. Sabic has had to pay 50 per cent more ing consuming markets to state-owned but quoted on for ethane as a result of measures the government is taking to meet liberalisation requirements laid down by the World Trade Organisation. However, the price it pays

for feedstock is still well below that paid by western Mr Salamah said he

believed world demand for

petrochemicals would continue to grow. "The fastest growth will be

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of the holders of the outstanding U.S. \$500,000,000 6%% Guaranteed Bonds Due 2003 of the Issuer (the "Bondholders" and the "Bonds" respectively)

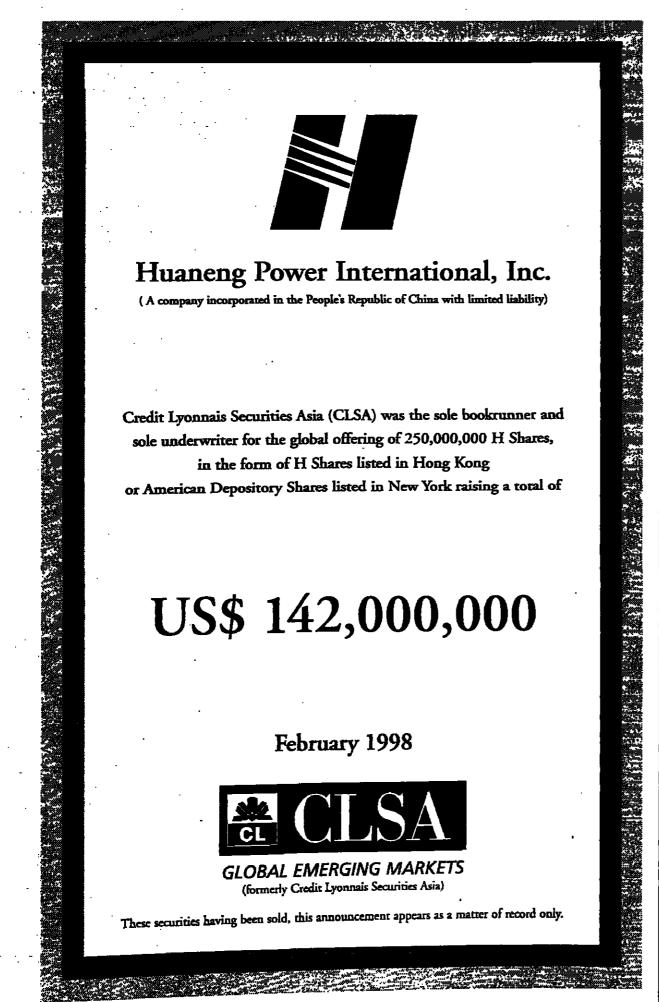
NOTICE IS HEREBY GIVEN that the Meeting of the Bondholders convened by the Issuer for Thursday, 12th March, 1996 by the Notice dated 17th February, 1996 published in the Financial Times was adjourned strough lack of a quorum and that the adjourned Meeting of the Bondholders will be held at the offices of Herbert Smith, Exchange House, Primares Street, London ECAS, 25th, England on Thursday, 2nd April, 1996 at 10.30 a.m. (London time) for the purposes of considering and, if shought fit, pessing the following. Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Trust Deed dated 24th November, 1993 (the "Trust Deed") made between the Issuer, B.A.T Industries p.L.c. as guarantor (the "Guarantor") and The Law Debenture Trust Corporation p.L.c. (the "Trustee") as trustee for the Bondholders and constituting the Bonder.

cates and using instruction forms are available for collection and copies of the Trust Describing the Terms and Conditions of the Bonds) referencement, the Paying Agency Agreement dated 24th November, 1993 relating to the Bonds, the Offering Circular dated 23rd November, 1993 relating to the Bonds, the Offering Circular dated 23rd November, 1993 in respectively and the Committee and Accounts of the Guerantor for each of the years' ended 31st December, 1995 and 1998 are available for Inspectively Circular dates and 1998 are available for Inspection

vor Hearn: telephone +44 (0)171 777 5415, facsimile +44 (0)171 777 5410).

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#### **GERMAN BANKING**

### Helaba starts searching for possible partner

Germany's over-crowded banking sector looks set for further concentration as Landesbank Hessen-Thüringen (Helaba), a medium-sized public sector bank, embarks on the search for a possible partner. With public and private sector banks now merging, aba had to consider how long it could carry on alone, said Udo Güde, head of the savings bank association for the state of Hesse and Thuringia, which owns the bank.

He did not mention any likely partners, but dismissed the idea of a link with a quoted bank along the lines of Bankgesellschaft. Berlin's planned merger with Hanover-based Norddeutsche Landesbank. The Berlin bank combines private and public sector operations. Nor did he favour a vertical amalgamation, such as that under way in Stuttgart, southern Germany, to create Landesbank Baden-Würrtemberg, this will combine wholesale financial activities for the state government and the regional savings bank nent with retail savings bank business.

Mr Güde declined to say whether Westdeutsche Landesbank, Germany's biggest public sector bank, might be a suitable partner or whether any recent contacts had taken place. Previous merger talks between the two foundered 10 years ago. Some analysts regard Bayerische Landesbank as a possible partner. With total assets of DM185bn (\$102bn), Helaba is much smaller than both banks and will be dwarfed by the Berlin-Hanover and Stuttgart mergers. Andrew Flaher, Frankfurt

#### TURKISH BANKING

### Akbank plans share sale

The owners of Akbank, one of Turkey's largest banks, plan to raise about \$120m by selling about 3.5 per cent of their equity in the bank to international investors. Morgan Stanley, the Wall Street investment bank, is organising the offering in Aldanik, majority-owned by the Sabanci family. Marketing begins today in Zurich and Morgan Stanley plans to hold sales presentations to investors in Europe and the US over the next two weeks, after which it will announce the stock's price.

Turkish banks have profited strongly from Turkey's high Inflation and interest rates. Akbank reported net income up 29 per cent in dollar terms last year to \$598.8m. Robert Fleming, the UK investment bank, sald in a research report that Akbank has "one of the strongest balance sheets in Turkish banking, with impressive capitalisation, a healthy loan book, and a strong deposit

An executive said the family will plough the sale proceeds into family-owned Haci Omer Sabanci Holding, which would then buy the bank's industrial assets. Akbank will continue to be listed in Istanbul, where it has a free float of 17 per cent, although it will be traded in ADR form in London.

This is part of a long-term plan to separate the croup's inclustrial and financial assets. Akbank holds small stakes in several group companies controlled by the holding company, which in turn owns about half of the bank. Last year, the Sabanci family sold 10 per cent of the holding company in a local and international initial public offering that raised \$200m, which was partly used to restructure the group. John Barham, Ankara

#### **OILFIELD SERVICES**

### Saipem issue priced

The planned issue of 100m shares in Saipern, the cliffield services company controlled by Italy's Eni oil and gas group, will be priced at L9,900 a share, a 3.2 per cent discount on the closing price of L10,230 on Friday

The offering, of 40m new shares and 60m shares from Enl's stake, will raise up to L1,140bn (\$637m) if an over-ellotment. option of 15m shares is fully exercised. The sale will reduce Eni's stake in Saipern from 66 per cent to 46 per cent, or 43 per cent including the over-allotment. The capital increase is designed to fund the group's L1,700bn four-year investment programme. Bankers familiar with the deal said the amount was already

more than twice subscribed, although the offering will only close dman Sechs and SBC Warburg Dillon Read are joint book

runners of the international offering. IMI, the Italian bank, is lead manager for the domestic institutional tranche.

### SWISSAIR APPOINTMENT

### **Peter Petersen joins Nuance**

Peter Petersen, former president of Swatch, the world's top selling watch brand, is joining SAirGroup, parent of Swissair, in a bid to revive the fortunes of Nuance, the world's second biggest operator of duty free shops,

Mr Petersen, a German who has worked for Chase Manhattan and Goodyear, replaces René Dafflon, the Nuance chief executive who masterminded the acquisition of Aliders, the UK duty free store aroup in June 1996. The acquisition was criticised because the Swiss airline appeared to have overpaid for a business that was about to lose several of its most lucrative management contracts and face a serious threat from the ending of duty free shopping in Europe by 1999.

Nuance has grown rapidly over the last few years and now has sales of SFr1.5bn (\$1bn) a year. However, SAirGroup admitted last year that Nuance's results were not living up to expectations. It said turnover and profit targets had not been achieved and the integration of the Aliders duty free and retail chain had taken "more time and been more cost-intensive than originally envisaged". Australia, an important part of the business, had been particularly disappointing.

member of the executive board of SMH, the world's biggest watch company. Until recently, he headed Swatch, SMiH's leading brand, but was recently replaced by Nicolas Hayek, son of SMH's chairman. SAirGroup, one of SMH's bigger customers, described Mr Petersen's appointment as a "significant step in William Hall, Zurich

# Pan-Europe banks 'in 5 years' Heineken sees

### By George Graham and Andrew Jack

A pan-European market for retail financial services may take no longer than five years to emerge after the introduction of the euro, according to Daniel Bouton. chairman of Société Générale. France's largest private sector bank.

Mr Bouton has argued in the past that the creation of a single currency would not be enough to create a single market for banking services for personal customers, and Société Générale has no plans to expand in the retail sector outside France.

"I haven't changed my mind about retail banking activities. I still consider that differences in mentalities, savings regulations and tax laws will continue for several years to be very officient barriers to multinational retail banking," he Nevertheless, Mr Bouton

said these barriers would not last as long as many people expected, even if language differences meant that there would never be a fully uni-Starting as early as 2000,

pressure would grow from

Tomen to

directors

to a third

By Michiyo Nakamoto in Tokyo

Tomen, one of Japan's

leading trading companies, is reducing the number of

directors to a third of its cur-

rent level over the next two

years in a major restructur-

ing effort. The move follows

has forced the company to

pass its dividend for the first

time in more than 40 years.

year - largely as a result of

a Y37bn write-off related to

latent losses from financial

assets and affiliated compa-

Under the restructuring

programme, one of the most

dramatic undertaken in a

wave of similar action

mainly seen in financial ser-

vices sector, eight directors,

including chairman Yasuo

be reduced by between 10

Tomen also aims to conso

idate the number of its affiliates from 472 to about 50 and

reduce its payroll of 2,730 by

about 400. It also aims to reduce its borrowings. of

Y1.064.8bn by about Y200bn. Tomen's dismal perfor-

mance reflects the pressures

on Japanese companies after

the bursting of Japan's asset

bubble and the weak stock

market. Y25bn of the write-

offs relates to losses

incurred because of the

It is the first time in more

than 40 years Tomen will

have posted a full-year net loss. It reflects the damage

the Asian crisis is having on

Japanese trading companies, which have been deeply

involved in infrastructure

projects in the region.

A company bound by tra-

dition, which dictates that

relationships often take precedence over profits, Tomen

is under pressure to prepare

for increased competition in

key markets where the

increasingly global nature of

industries has weakened the role of Japan's trading

weakness in share prices.

per cent and 30 per cent,

The agrochemicals to

reduce



Daniel Bouton sees growing pressure from consumers

consumers for the harmonisation of tax rules on savings and investment

"Let's assume two years where nothing happens, and then two or three years of political debate, but I don't foresee that it will take more than five years before we

have a common basis for fiscal regulations."

Société Générale, which last week reported a 34 per cent increase in net profits last year to FFr6.1bn (\$1bn). has raised eyebrows in the investment banking industry with a string of small acqui-

and the asset management arm of Yamaichi Securities in Japan, the French bank has struck deals with three US corporate finance boutiques including: Barr Devlin, a New York-based specialist in the utilities sector, Bannon & Co, a Beverly Hills media sector adviser. and Cowen & Co, a New York healthcare, technology and media firm.

Mr Bouton said these acquisitions were carefully targeted, and not intended to vault Société Générale into the top tier of global investment banks.

"The aim is not to build a bulge bracket investment bank with global capacity. What we are doing is adding commission-driven revenues to our wholesale business in some parts of the world." Each of the US firms, he

said, added expertise in sectors where Société Générale was already a significant banker. "My intention is to stop

this acquisition process for some time while we digest, but if we did something more, it would be to add one more industry line."

# Besides the corporate finance and private banking arms of Hambros of the UK and the asset managers. group is adding niche brands to its US portfolio. Corona's

#### By Gordon Cramb in Amsterdam

Shares in Heineken, the world's second largest brewer, surged 7.7 per cent on Friday as it served shareholders a scrip issue and stock split along with a heady rise in annual profits. The results confirmed a

return to growth at the Dutch group after a flat 1996. An unchanged cash dividend, and an acknowledgement that it had lost first place in the US market for imported beers, were brushed aside.

Karel Vuursteen, chairman, conceded defeat to Mexico's Corona as the import of choice for dividend for the year Americans.

But he argued that this had come amid a price war. Heineken, which outside the Netherlands and the UK is sold as a premium product, was staying aloof.

Heineken said it was concentrating on profit margins and long-term strategy in the US, the world's largest beer market. To enrich the mixture, the

The shares will then be split five-for-one, meaning that a holder of four existing

withholding tax.

shares will end up with 25. In Amsterdam on Friday the shares closed Fl 32.40 higher at FI 454.40.

Hispanic appeal is being

countered on a modest scale

by Desperados - a beer with

a tequila aroma, produced by

Heineken's Fischer subsid-

Heineken sold 73.8m hecto-

litres worldwide last year, an

increase of 4.4 per cent

which it said compared with

1 per cent for the industry as

a whole. Revenues were

ahead 11 per cent at

Net profits at F1 761m were

ahead 16 per cent, at the

upper end of analysts' fore-

casts. Earnings per share

were Fl 15.18 against Fl 13.06.

remains at Fl 8.50.

shareholders are to receive

one bonus share for every

four held, plus 69.4 Dutch

cents to cover domestic

Although the basic cash

lary in France.

Fl 13.51bn (\$6.6bn).

### INTERNATIONAL BONDS TRADING IN LOCAL INSTRUMENTS HAS OUTSTRIPPED THAT IN EMERGING MARKET DEBT

### Investors boldly cross final frontier

Assets denominated in local currencies were always seen as the "final frontier" in emerging market investment. This frontier was crossed boldly by increasing numbers of international investors during last year's bull market.

Trading in local instruments grew by 18 per cent to a dismal performance that \$1,500bn in 1997, outstripping the general progression in emerging market debt. which rose by a more modest 12 per cent, according to machinery group, which is Japan's seventh largest tradthe Emerging Markets Traders Association. Brazilian local instruments saw the ing company, warned it would report net losses of sharpest growth, with turn-Y19bn (\$148m) in the current over rising by 159 per cent.

"The risk reward profile is very different for local instruments because of the added exchange rate risk." says Peter West, chief economist at BBV LatInvest. "But the potential rewards are

often much greater." Investors' growing accep- Asla," says Christina Heinl, tance of risk was first head of investment at BB reflected in the shift from Securities, the London Brady bonds - which are investment banking arm of

sion, because they expose investors to the risk of being reimbursed in a devalued

Mr West points to two main factors behind the rising attractiveness of Latin American markets: • The "pull factor": sound

economic policies and market-orientated reforms have made these markets less The "push factor": bond

yields in industrialised countries have fallen to record south of the US. lows as a result of fiscal discipline, a reduction in inflation and a fall in government bond issuance, which has forced yield-hungry investors to turn to riskler Analysts also believe

investors are attracted by Latin America's transparency and safety relative to other emerging markets.

"These markets are more transparent than other emerging markets, such as Matsukawa, will step down. backed by US Treasury secu- Banco do Brasil. "Brazil, in fully when it was under ritles - to eurobonds, which particular, has been offering pressure will underpin invesinduce an added risk dimen- nomic reforms remain on reversal of the trend."

track, investors will con-10-year benchmark bond yields tinue to show interest." Mexico, Argentina and

Chile are also "going in the right direction", she adds. Latin America, however, was not entirely unaffected by the spillover from last autumn's Asian turmoil. The flight to quality, which led investors to retreat from Asia and eastern Europe to the most stable North American and western European bond markets, was also felt

"The increase in trading occurred primarily in the first and second quarters, and declined markedly in the second half of the year when Asia-related currency concerns adversely affected the Brazilian markets," says the EMTA.

limited compared with some Asian markets

caused a sell-off in most Latin American markets. Mr West believes that the panic not seen the end of the was short lived: "The fact Asian crisis, so they will that Brazil managed to defend its currency successexpose the buyer to the risk a good story for quite a tor confidence. The crisis out, especially with several reverse existing reforms, but of default. Local instruments while. As long as the eco- was more of a setback than a countries facing elections - whether they will maintain

However, the decline was, . Ms Heinl believes that May, Brazil in October and after the worst of the tursian markets. moil was overcome, some
While the turmoil also markets could benefit from the lingering uncertainty.

"Some people feel we have

continue to focus more on Latin America." she savs. But further, more local-

Venezuela in December. And in times of uncertainty local currency instruments have traditionally proved more volatile than Brady bonds or eurobonds. But analysts do not expect any significant damage from a potential rise

new governments might Ecuador and Colombia in momentum," says Mr West.

gives the latest available raise of exchange (rounded) against four key correctes on Friday, March 13, 1998 . In some cases the rate is naminal. Market pales are the average of buying and selling raise except where they are shown to be otherwise. In author cases market raise have been calculated from those of foreign currencies to which they are tied.



CROSS BORDER M&A DEALS BIDDER/INVESTOR TARGET SECTOR VALUE COMMENT Wolter Kluwers (N'lands) Publishing \$17bn Abandoned Roche (Switz) Boehringer (Germany) Pharmaceuticals \$10.2bn Price cut Avenor (Canada) Forest products \$2.4bn Beals Abitibi Fortia (Belg/N'lands) John Alden FC (US) Bolt-on buy GSM (Germany) Steyr-Daimler (Austria) Engineering Tops Magna bid Dominion Energy (US) Archer (Canada) Oil & gas Offer agreed Nomura (Japan) IPB (Czech Rep) Banking Long awaited GE Capital (US) Barcom (UK) Plant him API (UK) Astor Universal (US) Packaging \$59.7m Fit in foils Avon Rubber (UK) HI-Life Rubber (US) Rubber

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# Red faces over Steyr-Daimler-Puch Wolters

By Eric Frey in Vienna

The sale of Austrian vehicle maker Steyr-Daimler-Puch, which looked straightforward a few weeks ago, has turned into an embarrassment for Bank Austria, the country's largest bank, and parts of Austria's business establishment.

Creditanstalt, the wholly owned subsidiary of Bank Austria, was just a day away from finalising the sale of its 67 per cent stake in the automotive group - and its 50 per cent holding in Steyr's profitable joint venture with Chrysler - to Canada's Magna International when political criticism and a tentative but better counteroffer forced it on Tuesday to

Since then, several other bidders have stepped forward, all willing to pay more

delay the decision.

than the Sch3.5bn (\$274m) tria to Canada, where he which liked Mr Stronach's that Magna's chairman, the Austrian Canadian business man Frank Stronach, put on the table.

They include GSM, a German investor group; a group formed around Hannes Androsch, the former finance minister and Creditanstalt chairman; and Borg Warner, the US automotive concern and Magna's main competitor in the North American market

Analysts have long argued that based on Steyr's annual Schlbn, the Creditanstalt stake should be worth at day's meeting. least Sch5bn. Creditanstalt's management now has to explain why it was so eager to sell Steyr to Magna for what looks to many like a bargain price.

Mr Stronach, who emigrated in the 1950s from Aus-

who arranged the initial contacts for the Steyr deal.

Bank Austria chairman Gerhard Randa also sits on the board of Magna Interna-

The deal was announced on January 9, but the details were unclear. The bank's management first tried to get approval by the supervisory board by written consensus, but when some memcash flow of more than bers complained, it was put on the agenda of last Tues-

> with Austrian business practice, not to speak of international practice." Androsch said in a television

"This was not done in line

interview yesterday. Magna's bid was welcomed by Steyr's workers' council.

chancellor Franz Vranitzky, agement and employees. In recent years, Mr Stronach has created and guaranteed thousands of jobs in the Austrian car supply industry. through investments and acquisitions. But Bank Austria shareholders were less

impressed.

The tussle over Steyr is reminiscent of the drawn-out privatisation of Creditanstalt, which took almost 10 years and ended with Bank Austria swallowing its main rival after a series of political battles. Many of the forces now lining up against a sale to Magna seem to be linked to Creditanstalt's for-

mer top management. Mr Androsch, who led Creditanstalt in the 1980s, was the first to criticise the

founded Magna, is close to emphasis on a co-operative former social democratic relationship between manchancellor Franz Vranitzky Creditanstalt group. Mr Leibenfrost is understood to have approached the bank's management some months ago with an offer to buy Steyr. He arranged for GSM to make a last-minute entry that stopped Magna in its

stalt to postpone the sale.

# tracks and forced Creditan-

The smart money in Vienna is still on Magna to win the Stevr battle. There are doubts over whether GSM will actually make a binding offer.

On Friday, the group complained about a lack of co-operation from Creditanstalt and demanded a 12week moratorium to study the books. Only Borg Warner is believed to have entered serious negotiations

### EMERGING MARKETS RATING AGENCIES ARE CONFUSED OVER THE STATE OF THE ECONOMY Russia seeks to level debt mountain

By John Thornbill in Moscow

Last week, the financial experts at the Fitch IBCA credit rating agency reviewed the Russian economy and confirmed their BB+ long-term foreign currency outlook. Later in the week, the rival Moody's agency studied the same evidence and decided that greater caution was needed. It downgraded Russia's sovereign debt rating from Ba2

Mikhail Zadornov, Russia's thoughtful finance minister, was not the only one to be baffled by such a stark divergence of views. "The agencies received from us totally objective information and drew conclusions that were the exact opposite of each other," he said. "This is like the philosophical argument about whether a glass is half empty or half full."

Yet if the rating agencies are confused about the current state of the Russian economy, then maybe they understand the situation all too well. Russia may have endured the worst of the financial buffeting that folit is still uncertain how the moment."

economy will turn out this year - especially after president Boris Yeltsin's latest health scare.

Those who argue that the glass is half full claim that Russia will soon re-enter the virtuous circle that began last year when the country finally reintegrated itself with international capital markets.

Peter Boone, co-head of research at Brunswick Warburg, the Moscow-based stockbrokers, estimates \$10bn of foreign loans will flow into Russia this year as the federal and local governments and big corporations restart their international borrowing programmes. "That capital will increase

the liquidity in the economy and build up central bank reserves. We will see the money supply starting to go up, deposits and bank lending will increase, and that as investor confidence will improve all markets," grows. he says.

"The economy is likely to quarter and that rate will accelerate with the capital inflows. I think the situation is much better than most lowed the Asian turmoil but investors think at the

Already, yields on Russian 1997, have rarrowed again to less than 450 points over. Yields on domestic treasury hills ICKOsI have also timbled to less than 30 per cent

This month, the central bank has bought \$600m of grow 1.5 per cent in the first foreign currency, rebuilding its reserves to about \$16bn. Such is its renewed optimism that on Friday it chopped six percentage points off the refinancing rate to 30 per says John Paul Smith, Rus-

There has always been a eurobonds, which shot up to correlation between bond 630 basis points over US yields and equity prices in Treasuries in November Russia, given the rudimentary state of the two markets. Consequently, share prices have risen strongly since late January as bond yields have fallen. The RTS index, which fell more than 53 per cent from its peak in October, has rebounded 32

> "The equity market does not have a mind of its own at the moment. It is simply following the bond market," sia analyst at Morgan Stan-

per cent over the past six

lev. "But if tax collection does not go up by at least one-third by the spring, both the bond and the equity markets have serious problems." The sceptics, who view the Russian glass as half empty, highlight the country's continuing problems with public finances as the biggest danger to its putative economic recovery - and stock market valuation.

Although, in theory, resource-rich Russia should have no trouble in sustaining a large volume of debt, it runs the risk of a short-term cash-flow crisis. This year, Russia will spend one-quarter of all federal expenditure - or 4.4 per cent of GDP - on servicing its internal and external debts, some 50 per cent of GDP.

So long as Russia runs a balanced primary budget deficit, sees a pick-up in economic growth, and achieves a real appreciation of the rouble, then this debt mountain should subside to a perfectly manageable proportion of GDP.

But, in the meantime, investors in the Moscow stock market will remain worryingly reliant on the assiduity of the tax man.

# ahead of target

By Gordon Cramb

Wolters Kluwer, the Dutch publisher that a week ago failed to agree a merger with rival Reed Elsevier, has produced annual results ahead of its self-assigned targets and intends to seek other acquisitions

Net profits rose 21 per cent last year to F1579m (\$283m), on sales ahead by the same proportion to FI 5.21bn. Net earnings were Fl 8.43 a share fully diluted, up from F1 7.08 a 20 per cent rise compared with an objective of 15 per cent annual growth for the rest of the century.

Expenses associated with the abortive merger deprived shareholders of 13 cents per share in earnings. Wolters Kluwer said the after-tax costs were Flom for the year It increased the dividend to F13 a share from F12.48, paying out fractionally more than its promised 35 per cent.

The company said it would "continue to pursue its formulated growth strategy by means of organic growth and through acquisitions with undiminished energy".

Organic growth expanded 1997 revenues by only 4 per cent but generated a 14 per cent increase in operating income. At Fl 1.22bn this was in total 31 per cent higher, with positive exchange rate influences as well as takeovers accounting for the rest of the gain.

The group spent F1937m on acquisitions last year, committing an additional Fl 252m to deals that remained uncompleted by December. Purchases continued in February with a \$375m offer to buy Waverly, a US supplier of medical ioumals

Wolters Kluwer said a

reorganisation at CCH, a previous US acquisition would be largely completed this year. That project accounted for two-thirds of its Fl 139m outlay on restructuring. Provisions set aside for similar expected costs were only F146m last year, sharply down from Fl 346m in 1996.

## **NYSE** plans European share study

The New York Stock Exchange is to approach several leading European companies to take part in a pilot study which it hopes will encourage a round-the-clock global marketplace for ordi- and their domestic nary shares.

About 12 companies from variety of sectors are to be them to trade ordinary shares on the world's largest stock market rather than their existing American Depositary Receipts.

Several companies have complained about lack of liquidity of the ADRs, which reflect the value of the underlying share while trading as a separate entity. Georges Ugeux executive

vice president at the exchange with responsibility for the international division, said the decision to list ordinary shares had been prompted by the increasing in the next few weeks, it interest in non-domestic could take another 12-18 shares among US investors months to roll out the proand the more global nature gramme. of companies.

"This is one of the steps that needs to be taken to creequity similar to the global bonds," he said.

While some of the largest global companies enjoy very liquid trading in their ADRs. this is not the case for a majority of companies which are listed on both the NYSE

Mr Ugeux said the exchange wanted to "create a market which is more picked as guinea pigs for a a market which is more project which will allow seamless, where the same security is recognised in any system". It has rejected a suggestion that the ordinary shares should trade in local currencies.

They will be denominated

Some 343 non-US companies are listed on the NYSE, with 145 of them based in Europe. The list of about 12 will aim to encompass a broad range of companies, sectors and nationalities.

Mr Ugeux said while the exchange could be ready to contact its target companies

Over the past eight years the proportion of US investors holding non-domestic ate a global market for shares has risen from 3 per

### **Gulf Air returns** to profitability

Gulf Air, the regional carrier owned by the governments of Abu Dhabi, Bahrain, Oman and Qatar, made operating profits of \$48m last year following a \$156m loss in 1996, president and chief executive Sheikh Ahmed Bin Saif al-Nahvan said.

loss of \$159m in 1995. amassed debts of \$1.6bn by the end of 1996. These have been cut to \$640m, according to Sheikh Ahmed, by the \$850m. Gulf Air, which has

cut many lossmaking routes to the US and Europe, retains 28 aircraft.

Since last month, six of these are leased from Abu Dhabi-based Oasis International Leasing Company in a \$195m purchase and leaseback arrangement struc-tured by British Aerospace in an 80:20 debt/equity pack-The airline, which made a age. The debt portion is covered by a loan from the Royal Bank of Scotland. Oasis is reported to be fin-

alising a deal worth more than \$600m to part acquire sale of 17 aircraft worth Australia's Ansett Worldwide Aviation Services.

### Recommended Cash Offer

CHASE MANHATTAN PLC on behalf of
LIFE ASSURANCE HOLDING CORPORATION LIMITED
to acquire the shares in

to acquire the shares in GAN LIFE HOLDINGS PLC not already owned by
TARGETCHIEF PLC

Chase Manhanase ple ["Classe"] austrement on behalf of Life Astronace Holding Corporation Limited ["LAHC"] that, by seeine, of a formal Office Document dured and despatched on 13 March 1998 (the "Office") Document" Classe is staking a recommended office (the "Office") on behalf of LAHC to bengine all the existing mentalizated and instant of instant dordinary shares of 59 each and office produces of 59 each and of the paid of ordinary shares of 59 each are of 59 each as GAN Life wecondensorably allocated or instant delices fine dute on which the Office closes for such confirm date or dates as LAHC may decided including those immed pursuant to the exacute of options granted under the CAM Life share option archemen ("GAN Life Shares"). A holder of GAN Life Stares who accepts the Offer will receive 285.5p for every one GAN Life Stare held and so in proportion for any other and GAN Life Stares.

Sourcholders, other than certain oversem shareholders, who accept the Offer may elect to receive LAHC Loan Notes restend of all or some of which they become entitled under the Offer the "Loan Note Alternative"). To the extent that a GAN Life Shareholder elects for the Loan Note: the will accept £1 nominal of LAHC Loan Notes in respect of each £1 of cash to which he is utherwise entitled under the Offer. The full terms of the Offer and the Loan Note Abernative are set out in the Offer Docs This advertisement is not being published or otherwise distributed or sent to or into the United States, Canada, Australia or Japan.

This solvertisement is not being published or otherwise distributed or sent in or into the United States, Canada, Australia or Japan.

The Office and the Loan Note Abensative are not being made directly or indirectly us the United States, Canada, Australia or Japan or by use of the mails or by any means or instrumentality of measures or foreign consistence of, or any facilities of a sactional securities eachings of, the United States of Australia, its performes and propagations, any state of the United States of Colombie life "United States," Copies of the Offire Doctoment, the Form of Acceptance and any related documents are not being sort and entry not be smilled or otherwise distributed or such as on the United States, Canada, Australia or Japan, including Gall Life States-holders or puriticipants in GAN. Life shares for such persons on the United States, Canada, Australia or Japan or low or by postmaces, trustees or castednan bolding GAN Life States for such persons on the United States, Canada, Australia or Japan or Pitestricted Overnous Persons". Persons receiving seath documents including GAN Life States for such persons on the United States, Canada, Australia or Japan or one that the Colombia of the Canada or Japan or such the Canada or Japan or such the Canada or such as a suc

for the account or branch of, any reservant Oversean Currence and the overseases. The Office which is made by means of the Office Document and this adverteement, is capable of acceptance from and after \$1.59 p.m. on \$13 March 1948 as accordance with the terms and conditions not out or referred to jut the Office Document. The Office is, by means of this adverteement, extended to all persons to whom the Office Document stary and he despatched who hold, or who are entitled to have succedificantly allowed or insured to them, GAN Life Shares. Such persons are informed that copies of the Office Document and Forms of Acceptance will be available for collection from IRG ple at Balliage House, 390-398 High Road. Biford, Essex, IGI 1NO.

Home, 390-398 High Road, lifterd, Essea, RGI INQ.

LAHC reserves the right, to its standard describion, not to issue LAHC Loan Notes to stay persons who fails or is marble to give the representation and waterstay act out in principals (is) of Part B of Appendix I to the Offer Document, and, accordingly, an election of any such person to receive LAHC Loan Notes may be rejected as invalid or, in the absolute discretion of LAHC, may be treated instead as a wild acceptance of the Offer for each consideration. Notes may be rejected as invalid or, in the absolute discretion of LAHC, may be treated instead as a wild acceptance of the Offer for each consideration. Chance Manhattan place and Painters Authority Limited, in acting for the Austrance Holding Corporation Limited for providing the protections afforded to constructs of Classe Manhattan plc, nor for growing advice in relation to the Offer.

for providing the protections afforded to consumers of Classe Maniation pic, nor for providing advice in relation to the Office.

This advertisenest is published on behalf of LAHC and his hors approved by Classe, a intentior of The Securities and Pointes Authority Laurical, solvily for the purposes of Section 57 of the Francial Services Act 1986.

The Directors of LAHC except responsibility for the information contained in this advertisement and to the best of their knowledge and belief through all reasonable care to exame that such as the case t, the information contained in this advertisement is in accordance with the facts and does not omit mything fittely to affect the import of such information.

#### FIDELITY SPECIAL GROWTH FUND Société d'Investissement à Capital Variable nsallis House - Place de l'Étoile B.P. 2174, L-1021 Lancabourg

#### R.C. Lexembourg B 20095 NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Shareholders of Fidelity Special Geowth Fund, a Society of International Acquital Variable organised under the laws of the Grand Duchy of Luxembourg (the "Company"), will be held at the registered office of the Company, Kansatiis House, Place do (Broile, Luxembourg, at 11.00 a.m. on March 26, 1998, specifically, but without limitation, for the following purposes:

- Procestation of the Report of the Board of Directors Expectation of the Report of the Auditor
- Expensions of the report of the America

  Approval of the balance shoet and income statement for the facul year cuded November 30, 1997

  Discharge of the Board of Directors and the Aminor

  Election of five Directors, specifically the re-election of Messus. Edward C. Johnson 3d, Barry R. J. Bateman, Charles A.

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  Election of five Directors and Helmert Prans van den Hoven and the acknowledgement that the seat of Mr Charles T.M. Collis
- remains vacate.

  Election of the Auditor, specifically the election of Coopers & Lybrand, Lunranbourg
  Declaration of a cesh dividend in respect of the fiscal year ended November 30, 1997
  Consideration of such other business as may properly come before the Meeting. Approval of items 1 through 8 of the agenda will require the affirmative vote of a majority of the shares present at the Moting with no minimum number of themse present or represented in order for a quorum to be present.

Subject to the limitations imposed by the Articles of Incorporation of the Company with regard to ownership of shares which constitute in the aggregate more than three percent (3%) of the ountstanding shares, each share is entitled to one vote. A Shareholder may act at any Meeting by patter. Dated: February 3, 1998



# RESULTS

CONSOLIDATED NET SALES FRF 89.2 billion +10.9%

CONSOLIDATED OPERATING INCOME

FRF 4,297 million +21.4%

CONSOLIDATED NET INCOME,

FRF 2,853 million

before kon-recurring literas FRF 2,630 million +27.4%

**NET INCOME PER SHARE.** 

FRF 117.30 +27.2%

NET DIVIDEND PER SHARE FRF 39.0

+21.9%

ADDITIONAL INFORMATION: Internet : http://www.pprgroup.com • Pinault-Printemps-Redoute lavester Relations Cotherine Tych - 33 (1) 44 90 63 25:

### **PINAULT PRINTEMPS-REDOUTE**

THE GROUP MAINTAINS ITS SUSTAINED TEMPO IN SALES AND NET INCOME GROWTH AND TAKES ON A NEW INTERNATIONAL DIMENSION

(1) Group Share

The Supervisory Board of Pinault-Printemps-Redoute, chained by Ambroise Roux, met March 11, 1998 and approved the group's 1997 audited parent company and consolidated financial statements, as presented by the Management Board. CONSOLIDATED INCOME STATEMENT

(in FRF millions) 1996 Change Net Sales 80,394 +10.9% 3,540 +21.4% Operating income (221) -26.7% Net financial expense Income from ordinary activities before taxes 3,319 +24.6% Non-recurring items (239) Net income of consolidated companies

2,070 +35.6% Share in earnings of equity affiliates 570 +17.7% Net income for the year

### The group reports new operating achievements

The group's occelerated expansion in 1997 resulted from its sustainedgrowth policy and reflects market-share gains, store openings (Frac, Conforcing, Redoute), the publication of new catalogs (among which AM-PM, Printemps, Gyrillus UK and Verboudet UK), the introduction of new PM, Printemps, Cyrillus UK and Vertiboudet UK), the introduction of new concepts (such as Froc Junior and Froc Telecom), and entry into new specially-distribution business lines, with Bernard S.A. for example. The group's fast growth is also due to acquisitions that are significant both in terms of size (Blos, Becob), and the apportunities they present for future development, such as Coan in Italia America. Furthermore, the group's accelerated expansion reflects its growing internationalization. The share in sales generated outside France increased from 30.6% in 1996 to 35.4% for 1997. Finally, in 1997 the group continued its sportion in specialty distribution with the disposal of Principle. confirmed its vocation in specialty distribution with the disposal of Prisuric, its only food-related distribution company.

Consolidated net sales rose 10.9% in 1997 to FRF 89,179 million, compared consolidated net states rose 10.5% in 1997, to the experience with FRF 80,394 million for 1996. An accelerated 4th quarter increase in company sales enabled the group to sustain a growth rate exceeding its targets. Sales in the group's Retail Division rose 6.6% (to FRF 48,905 million), while Wholesale Division sales were up 19.5% (to FRF 38,768 million), and International Trade Division sales increased by 4.1% (to FRF 6,506 million). At constant exchange rates and on a constant structural basis, group sales rose 3.9%, with sales by division increasing by 6% (Retail), 1.2% (Wholescale), and 3.1% (International Trade).

Consolidated operating income was up 21.4% in 1997 to FRF 4,297 million, versus FRF 3,540 million for 1996. Each division continued to raise grass margin and improve productivity. At the same time the operating expense trend was kept under control. The group's operating ratio thus increased by a 0.4 percentage point to 4.8% from 4.4% in 1996. This feverable trend was achieved despite the introduction of new concepts and their build-up which reduced operating income by some FRF 40 million.

Net financial expense was down sharply to FRF 162 million, as appased to FRF 221 million the year before. The drop in interest rates and the increase in suppliers' prompt payment discounts made it possible to absorb new financial expenses related to the increase in average indebledness.

Non-recurring items principally include FRF 693 million in pre-tax capital gain from the Prisunic disposal and FRF 257 million in exceptional provisions.

Share in earnings of equity affiliates come to FRF 671 million in 1997 versus FRF 570 million the previous year. The Financial Services Division's versus 142-370 maion the previous year. The municipal services birnsion is contribution to these figures represented a 16.3% increase over 1996 for a 1997 total of FRF 629 million. In 1997, this Division's autoandings and production increased by 22.7% and 18.6% respectively over the previous year. The Division's figures for 1997 include Ellos transical activities since July. Goodwill amortization come to FRF 261 million, versus FRF 225 million in

CONSOLIDATED BALANCE SHEET (in FRF millions) 1996 Change Fixed assets 27,696 +11.3% 3,264 +71.9% 17,751 +12.4% 2,344 +11.6% 10,865 +27.6% Working capital Shareholders' equity (1) Net indebtedness

Net income for the year came to FRF 2,853 million, compared with FRF 2,065 million in 1996. Excluding non-recurring items, net income advanced by 27.4% and net income per share stood at FRF 117.30, versus FRF 92.20 for the previous year.

15,167 +16.0%

#### Financial structure and cash flow allow room for new developments

Group acquisitions during the year led to an increase in net indebtedness which amounted to FRF 13,866 million, versus FRF 10,865 million at yearend 1996.

The debt to equity ratio increase remained contained, however, and at year end stood at 0.69 as opposed to 0.61 at year end 1996. Cash flow, which amounted to FRF 3,945 million versus FRF 3,326 million in 1996, easily covered financing requirements for 1997 expenditure on operating assets which totaled FRF 1.9 billion. In addition, the group devoted FRF 4.9 billion to acquisitions and equity investments during the year.

### Subsequent events and outlook

In early 1998, the group continued its stepped up policy of developing its

 Reval took control of Ideal Australia (FRF 480 million soles) and Ideal New Zealand (FRF 340 million soles), after having acquired the activities of G.E.C. in those some two countries (soles of FRF 1.6 billion). La Redoute signed an agreement to ocquire 47.5% of Brytane, the 4th largest cotalog retailer in the United States (soles FRF 8.1 billion).

Frac and La Redoute took a 70% shareholding in the French educational loy cotalog company Eveil et Jeux (sales FRF 120 million). The group also committed itself to a new business line with the acquisition the group also communed issert to a new pushiess time with the acquismon of the founders' 47.2% shareholding in Guilbert, a leading European distributor of office supplies and equipment. The group is also pursuing an active policy of internally generated growth. These transactions, all in tesaping with the determination to internationalize the group, will enable it by the end of 1998 to generate 45% of its sales outside France and operate

in 40 countries worldwide. Since the start of the year, the favorable trand observed in late 1997 seems to be holding. By the end of February, excluding 1998 acquisitions, net soles had advanced by 9.5%. Nevertheless, over the short and medium term, monogenesi remains very conservative in its consumer spending assumptions. for the remainder of the year, the group will continue to pursue its expansion objectives both in France and obroad, while paying still greater attention

### PARENT COMPANY FINANCIAL STATEMENTS

to productivity and operating costs.

The Supervisory Board also reviewed the financial statements of the parent company, Pinauli-Printemps-Redoute. Income from ordinary activities amounted to FRF 630 million at December 31, 1997 compared with FRF 677 million at year-end 1996. Net income totaled FI J 738 million for 1997 versus FRF 1,174 million at December 31, 1996. A dividend payment of FRF 39 per share will be proposed to the General Meeting, plus 1996, mainly the result of company acquisitions and minority shareholder buyouts carried out by the group in 1997. a tax credit of FRF 19.50. The proposed dividend would represent an increase over the previous year of 21.9% and would be paid July 1, 1998.

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Witness and 熟练

Barrier Street

# MARKETS WEEK

At Home in Emerging and Capital Markets ING BARINGS

March 16 - March 22

#### **NEW YORK**

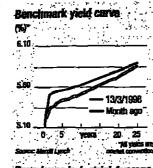
#### By William Lewis in New York

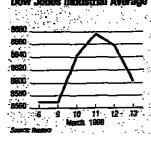
Economic data to be released this week are expected to show the Asian crists is beginning to affect the US trade position and that industrial production fell last month following 22 consecutive monthly advances. However, other data are expected to provide further confirmation of a lasting low inflation

environment in the US. On Thursday, analysts and traders are expecting to see the trade deficit having widened to \$11.5bn in January from \$10.8bn in December and a \$9.5bn monthly average for 1997. Both exports and imports are expected to have fallen.

Chase Securities says the trade deficit will "provide the first concrete evidence that Asia's turmoil is beginning to wash ashore". February's consumer price

report, also being released on Thursday, is expected to show "further confirmation of an extraordinary inflation scenario", says Donaldson,





Lufkin & Jenrette, the US investment bank. February's industrial production report on Tuesday is expected to confirm a decline in growth in the manufacturing sector. Industrial production is thought to have fallen by 0.1 per cent in February, the first fall since March 1996.

### LONDON

#### By Phillip Coggan

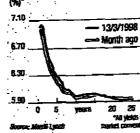
There is little doubt about the main event of the week for UK financial markets tomorrow's Budget. However, most economists expect the chancellor to

concentrate on microconomic measures, such as the welfare-to-work programme, rather than make macro-economic changes which will affect the overall equity market. However, the likes of

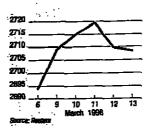
drinks and tobacco stocks will be braced for tax changes which may hit demand for their products. And gilt investors will be watching to see if the chancellor keeps his tight rein on public spending and whether he forecasts a public sector surplus in the near future.

Elsewhere, the market will be watching the economic data very closely in the light of the 4-4 tie at the February meeting of the monetary policy committee. Tuesday sees the retail prices figures

### Benchmark yield curve



FISE All-Share Index



requirement. Wednesday the unemployment, average earnings and retail sales

The last two will be of particular interest. Rising wage pressures might be one way that inflation shows up in the system, while retail sales data have been highly erratic in recent months.

### **FRANKFURT**

#### By Andrew Fisher in Frankfurt

German investors and traders have their sights set on 5,000 points for the DAX blue chip index after its 15 per cent rise so far this year. It pushed above 4,900 on Friday before slipping back and with institutions spending more on equities, it could breach 5,000 this week

High liquidity and low interest rates - 10-year government bonds yield less than 5 per cent - are expected to keep equities strong. Thursday's Bundesbank council meeting is not expected to lead to any interest rate changes. Nor are the M3 money supply figures due this week

likely to upset sentiment. The Ifo economic research institute's monthly business sentiment index could also signal a continued rise in confidence. Eckhard Schulte. economist at IBJ Research, said the index could show a moderate rise. But an upbeat tone should not be taken to mean the Asian crisis will have a negligible impact.

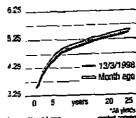
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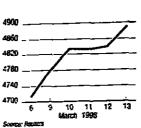
to lift Ciba

**Speciality** 

Lower charge

### Benchmark yield curve





Several big names will outline their performance and prospects this week. Bayer holds its annual pres conference on Tuesday and Thyssen - in the throes of merging with Krupp - has its annual meeting on Friday. Results are also due from BASF, Continental, Henkel and Schering.

### TOKYO By Michlyo Nakamoto in Tokyo

Tokyo will be preoccupied this week with news about more specific government plans to stimulate the economy and prop up the stock market.

In particular, investors will be anxious to receive as many positive signals as possible on prospects for further government action to lift the gloom that has infested Japan

There is likely to be a string of earnings downgrades as corporations. hit by the plunge in domestic consumption this year and the emerging impact of the Asian crisis, are forced to revise their profits forecasts before closing their books.

Concern about the dismal outlook for this earnings season has prompted talk of a "March crisis," involving a collapse of one or more large companies, spreading panic, plunging stock prices and further losses for companies as their asset values shrink with the market downturn.

Benchmark yield curve 13/3/1998 20 25 Nikkei 225 Average

Whether the government actually commits itself to further measures or not, it is likely to support the market's hope with public comments suggesting help is on the way. The question then is how far can the Nikkei rise as the market's mood fluctuates between optimism and scepticism.

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### LONDON RECENT ISSUES: EQUITIES

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#### STOCK INDICES



Panama Power Privatization

Government of Panama

Instituto de Recursos

Hidraulicos y Electrificación

(IRHE)

Privatization of Electricity

Generation and Distribution

The Government of Panama is in the process of

privatizing the electricity generation and

distribution companies created from the

restructuring of the Instituto de Recursos

Hidraulicos y Electrificación (IRHE). It plans to

sell about 50% of the restructured companies to

Interested strategic investors should contact the

government's financial advisor,

the International Finance Corporation,

c/o Mr. Luc Dejonckheere,

Tel: 001-202-473-7998

Fax: 001-202-974-4328,

E-mail: Idejonckeere@ifc.org.

### Mar 13 Mar 12 Mar 11 Mar 10 Mar 9 High Low High Low

Notice to holders

Witan Investment Company pic

6%% Exchangeable Bonds due 2008

(the "Bonds")

NOTICE IS HEREBY GIVEN pursuant to Clause 9.10 of the Trust Deed deted August 20, 1993 (the "Trust Deed") between the Company and The Law Debenture Trust Corporation p.l.o. constituting the Bonds that:

Debenture Trust Corporation p.l.o. constituting the Bonds that:

(a) Henderson Greenfritar Investment Trust pic ("Greenfritar") has announced a proposed reconstruction of Greenfriar (the "Proposals"). The Proposals provide for Greenfriar to be put into voluntary liquidation and for the transfer of Greenfriar is assets (other than assets required to meet the expenses of Greenfriar in connection with the Proposals and other assets to be retained by the Riquidation; into three unit trusts, Henderson American Smaller Companies Fund, Henderson European Value Fund and Henderson Globel Bond Fund, in accordance with the elections of Greenfrier shareholders who will be able to exchange their existing shareholdings in Greenfrier for units in one or more of the three unit trusts. In addition there is a facility for Greenfriar shareholders to elect to redeem units in Henderson Global Bond Fund immediately for cash.

(b) The Proposals are subject to approval by Greentriar shareholders at extraordinary general meetings expected to be held on March 31, 1998 and April 17, 1998.

(c) The Company can act as it thinks fit in relation to its holding of shares in Greanfiller and any securities or other assats received by the Company in the reconstruction of Greenfiller shall be included as part of the Ecclarge Property (as defined in Condition 8(a) of the terms and conditions of the Bonds).

continuous of the Bonds).

(d) Subject as provided in Conditions 7(f) and 10 of the terms and conditions of the Bonds and in the definition of "Exchange Period" in Clause 11 of the Trust Deed, any holder of Bonds is entitled to exercise his Redemption Rights (as defined in Condition 7(f) of the terms and conditions of the Bonds) if he wishes whereupon Exchange Property (as defined above) may become deliverable as provided in the terms and conditions of the Bonds.

PRINCIPAL PAYING AND EXCHANGE AGENT

The Chase Manhattan Bank 125 London Wall, London EC2Y 5 AJ

(the "Company") red in England No. 101625)

### **Chemicals**

TODAY

• Ciba Specialty Chemicals is expected to announce 1997 profits, before restructuring costs, of SFr558m-SFr610m (\$384.8m-\$420.6m) against SFr311m a year earlier, analysts said.

In 1996, Ciba SC reported a net loss of SFr516m after a restructuring charge of SFr1.1bn, as part of its spin-off from Ciba-Geigy and which was partially offset by a SFr250m tax fall-out.

Roger Birrer, speciality chemicals analyst at Bank Baer, forecasts 1997 profits. before restructuring costs, of SFr610m. He said he expects 1997 restructuring costs to total SFr240m, which will result in a net profit of SFr370m.

Daniele Scilingo, analyst with Bank Vontobel, expects SPr558m profits, before restructuring costs, and SFr333m after them, and said Ciba's positive result came on the back of the global chemical business cycle's positive trend.

reported 1997 sales of EIFB and Merrill Lynch. SFr7.823bn, up from a restated SFr6.578bn a year

Zurich, AFX News

### TUESDAY

 Michelin, the French tyre maker, is expected to report net profits of between FFr3.52bn and FFr4.21bn (\$590m and \$700m) for 1997. up from FFr2.9bn a year earlier, according to analysts'

Diageo: planning to take its exceptionals in three helpings

they added.

profit is expected to rise, but are being spread over the less than sales, which means the operating margin is likely to decline from 9.8 to 9.6 per cent a year earlier, Ciba SC in January according to forecasts from AFX News, Paris

> • Diageo is expected to south-east Asia. publish several sets of figform a view about prospects for the UK-based food and drink giant formed in December by the merger of Guinness and Grand Metropolitan. Analysts are expect-(\$3.23bn) for the year to

December 31. The exceptionals include a payment of

gains will be the main fac- win its support for the casts. tors in the earnings increase, merger, plus £85m in fees. For the full year, operating restructuring costs which three years following the

> merger. Analysts will also be looking for an update on January's trading statement which gave details of the impact of currency movements and the turmoil in

However, there is unlikely of ures that will help investors to be news on the sale of Dewar's scotch whisky or of Bombay gin - which the US regulator required to be the merger was approved.

ing pre-tax profits before • LMVH Moet Hennessy as a monopoly was in line exceptionals of about £1.94bn Louis Vuitton, the French with 1996, when earnings, luxury goods maker, will on excluding charges linked profit of FFr4.4bn-FFr4.5bn company's legal status, were

ica and further productivity shareholder, in order to according to analysts' fore-

However, growth in earnand a portion of the £375m ings from ordinary operations is likely to be more limited, as the Asian financial turbulence starts to take its toll on the results. AFX News, Paris

### WEDNESDAY

• France Telecom is expected to report 1997 net profits FFr14bn-FFr16.35bn (\$2.34bn-\$2.74bn), with most forecasts clustered around

the FFr15bn mark. They took their cue from sold by June this year when Michel Bon, company chairman, who said that profit in the company's final year Tuesday report 1997 net to the change in the

### U.S. \$400,000,000

IRHE's website is <a href="http://www.irhe.com">http://www.irhe.com</a>.



Santander Financial Issuances Limited

**Subordinated Undated Variable Rate Notes** with payment of interest subject to the profits of and secured by a subordinated deposit with Banco Santander, S.A.

(Incorporated in Spain with limited liability)

Notice is hereby given, that for the interest Period from March 16, 1998 to June 16, 1998 the Notes will carry an Interest Rate of 6.65% per annum. The amount of Interest payable on June 16, 1998 will be U.S. \$4,248.61 per U.S. \$250,000 principal amount of Notes. By: The Chase Manhattan Bank

London, Agent Bank March 16, 1998

strategic investors.

CHASE

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Tuesday, Friday and Saturday, For +44 0171 873 4874

US \$53,750,900

By: The Chase Manhattan Bank for and on behalf of Within investment Company

March 16, 1998

Ruropean Investment Bank Floating Rate Notes due 2008 For the period from March 16, 1998 to September 16, 1998 the Notes will entry an interest rate of 5,707034 per amount with an interest amount of US \$28.60 per US \$265.11. The relevant interest payment date will be

Ø European Investment Bank Floating Rate Notes due 2001 For the period from March 16, 1998 to lone 16, 1998 the Notes will carry an interest rate of LISSEN's per summ with an interest amount of LIT 61,507 per LIT 6,000,000 and LIT 676,970 per LIT 50,000,000.

LIT 2,000,000,000,000

CHASE

BANQUE PARINAS

BANQUE PARIBAS

### **CONTRACTS & TENDERS**

170 Upper Richmond Road, London SW15 2SH, is accepting tenders to choose a supplier of one HYDRAULIC PLATE BENDING ROLLS.

The details of this Public Tender are available on request, at the above address or contact:

Tel: 0181 788 8111 Ext. 130

### **BRAZILIAN NAVAL COMMISSION IN EUROPE - BNCE**

NOTICE OF PUBLIC TENDER NR. 002/98

Notice is hereby given that the BNCE with offices at:

CONTRACTS DEPT.: FAX: 0181 788 4190

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	NEW INTER	INΔ	rion	AL i	BONI	) is	SUES									
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	Carreda. YEH Export Der/ment Corpogi-se		HER 2004		99,54R 100,00	6.345 4	20(5 4,Nov 04)	SSC Warbury DR	Rectric at 1874.4 or Teles Rectemption price; 124,379 after 2 yes and 3 yes; man	Calc	T\$60.5 ti T\$60.5 ti Die aller ; Greensho	1848 act 19 to 10 1881 de 18 \$20m	Month of test Abject to	Convert Dective 140% in	into Teco at Issued capit urdie al acre	T\$52.6; etse ndo Yalan al. FX: 32.372 T\$455. ad value. Reset clause
	Feb Nati Murigage Assoc Marcel Undrwighto 1), A++1 Marcel Undrwighto 1), B++1 Harcel Funding Corp§]+1	100bs 17bn 17bn	Mar 2008 Fab 2004 Mar 2004 Mar 2000	1.75# (0.9) (0.9) 1.51#	99.2549 100.00 100.00	:	-3(JGB 202)	Barciaya/N Stanley Season international Season international	Credit Card Master Trust. L Stan 15% - 2 x 12-min Li +50top to Apr 20, then 5 kg	4-man Agais Bor. v) Loa. x	Libor +10t) Sturity: Oc Plus 4 da Callabia a	(P. r) Re 1 (18, u) 173 - 201	12% in y	ed re-ci r 1, 9% Slabie	ar. a) Short in yr 2, 8% in 10/4/00 a	1st coupon, b) (fisheek, in yr 3, 7% in yrs 4-5, k par, w1) 3-meb leher
	CALUM LINE Sustmerica lost Funding!	1 <b>00</b> 00	Apr 2018	(M)	100.00 99.75R	1,510	<u>-</u>	SERULA FINANCE IND Morgan Stanley DW	1.4402 at premium. yi) zer A) All payments in Det 3; Liber +1,5%. Pi Callebis from to 16/3/03, then 10%. Ji ( and spens call on (J4, J5), 3-esth Liber +60bp; 323 3 SF/3000. Paul 38 days ace	o to 1/ Callebie R Mar ( Cuerter	402, then on 18/3/1 on 18/3/1 of at par.	92 <sub>7 %</sub> 93 st pa F1) 3-m	include C) 3-m C) Uber (	s A200s h Libu 25bp. G	Runched of Bat. D) 3-mg	ar per. 17 Cattable from 0 27/2/96 at 100.24%. 1 Utor + 1,4%. (3) 3-auth 1622d to rouble, 17 2200
	Mentil Lynch & Colwit Poset 45 De 148		Apr 2006 Apr 2008	(WI) 5.00	99.90r 99.257	5,098	-	Creditabler in Lynch	and spens call on (14, 15). 3-anth Liber +60bg; 12) 3-4 5F:300an Plut 38 days acc B) All payments in USS. On	Ay lived I	es (ms; J or +75bg 0 5% ter	1) 6.7; to yr 10 1st 6 yr	2) 11.8 2 13) 3-1 6 2%	19 15. 19 15. 10 16. 10 70 7-	<b>COUNTS, CAN</b> 1; J4) 20.8; 1° +950p to ; 8, Even 8%.	Options on (J1, J2, J3) J5) 26.1. Coupons: J1) r 10. 10 Fungible with



### **CURRENCIES & MONEY**

### Drachma faces test

By Simon Kuper

and Capital M

Constitute for the

The Greek drachma makes today and it could prove a barely move against one market may test the approcentral rate.

Traders will also be watching sterling closely to see if it rises or crashes. UK data week at its best level since the former.

England's monetary policy July 1997, is approaching. committee revealed how torn it was over base rates. likely to offer only modest The committee has left them untouched at 7.25 per cent

had to use his casting vote to secure unchanged rates. The market now believes its debut in the European that UK rates may go higher. exchange-rate mechanism Even if the Bank believed that rates would rise only volatile one. The 11 other once more, currency stratecurrencies in the ERM gists argue, it would say so. That would ease prospects of another any more, but the endless rate increases, and might therefore stop the priateness of the drachma's pound's ascent. That no official has said any such thing is bolstering sterling.

The pound ended last expected this week suggest August 1997 above DM3.03 against the D-Mark. The five-Sterling took off last and-a-half-year peak, just Wednesday after the Bank of above DM3.08 reached in

Tomorrow's Budget is fiscal tightening. UK retail

<b>Let 13</b>		Closing	Change	Bid/citier	. Day's		Doe s		Taree	months	Ope y		Beak of
		nid-polet	OR ONL	apped .	tigit "	kor	Rate	%PA	Pade	SPA	Rate		Eag. Ind
eripe Stite	Sch	21,3513		414 - 612	21,4814	21,2601	21.2798	40	21,1436	3.9	20,6185	34	. 10
elejon	(SE1)	52.61D4		582 - 625	62 098G	62.384D	62.4063	39	620108	. 38	E0.4215	35	10
econark	OK1	11,5676		524 - 727	11,6282	11.5216	11.5316	37	11.4635	3.6	11.1966	32	10
nims	(746)	9.2112		042 - 181	A 2580	9.1780	9.1795	-41	9.1184	4.0	8.8781	3.5	8
TATICO	660	10.1859		B03 - 714	10,2308	10.1241	10.1318	10	10.0665	39	9.8084	3.5	10
CTRORY	DND.	3.0347	+0.0058		3.0514	3.0219	3.0244	4,1	3.005	3.9	2,9278	35	10
TERCO	Øŋ	491,745		514 - 978	407.331	476,540	497.523		555.531	-112	530,672	-7.9	6
elead	(A)	1,2104		081 · 116	1.2212	1,2090	1.200	1.3	1.2057	1.6	1.1801	25	Š
sty .	(4)	2507.00		596 · 984	3002.91	2974.91	2983.58	1.7	2974.6	1.8	2909.94	28	7
PRINCHES	4Å:	62,6104		582 - 625	82 9980	62.3840	62.4063	3.9	62,0108	3.8	80.4215	3.5	10
otherlands	P	3,4201		187 - 215	3,4393	3,4064	3,4083	42	3.3858	4.0	3.2084	36	10
Chiay	(MKC)	12.8185		108 - 281	12,6876	12,5723	12 5825	35	12.5121	34		2.9	9
atugai	(Es)	310.412		236 - 589	312.058	309.358	309.692	28	308.137	29	300.537	3.2	9
	(Pta)	258,000	+1.224	615 - 188	258.730	256.280	257,417		256,005	3.0	249.911	3.1	7
veden	(510)	13,2062	-0.0447	950 - 174	13,3281	13.1950	13.1731	30	13.1105	29	12,8708	25	8
ritzsine)	(551)	2.4661	+0.0038	646 - 676	2.4813	2,4579	2.4526	6.5	2.4267	6.4	2.324	5.8	10
(	Ē	-		-	•					-	-		10
11	-	1.5287	+0.001	279 - 295	1,5383	1,5253	1.5245	- 33	1.5164	32	1.4814	3.1	
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<b>4</b>	(RS)	1.8929		921 - 937	1.8972	1.8736	-	•	-		-	-	
eter <u>de</u>	(CR)	2.3553		542 - 564	2,3611	2.3322	2.3499	2.8	2.3399	2.5	2.3023	2.3	8
	New Peru)	14,2962	+0.099		14,3326	14.1821		-15 <i>2</i>	14,8263	-14.8	18.2177	-13.4	
X		1.6705	+0.0134	700 - 710	1.5745	1.6548	1.668	7,8	1.6631	1.8	1.8435	1.6	10
cilic/lilicide strafa		2.4785		· -									
no Kose	(AS)	12,9372	+0.1021	744 - 785 325 - 419	2,4807	2.4570	2.4712	2.5	2,4608	25	2A169	24	87
ing noug Siz	(HICS) (HICS)	85,9839		325 - 419 182 - 486	12,9673 66,0590	12.8191 65.3730	12.9235	1.3	12.9312	0.2	13.1879	-1.9	
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	nesi	6.2393		201 - 495	B.5158	5.7458	6249	-1.9	6.2963	-30	6.4588	-3.5	IZU
w Zesland	0(230)	2.8827		801 - 652	2.8659	2,8398	2.8855	-12	2,8703	-1.1	2.8888	-0.8	107.
	(Pass)	66.1519	+0.075	850 - 387	66.3400	65.6955	66,7014	-10.0	67,9464	-10.9	73.8154	-11,5	
udi Arabia	(SR)	6.2658		637 - 678	6,2805	6.2070	6.2594	12	6.2461	1.3	6.1984	1.1	
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uth Africa	(A)	8.3007		957 - 057	8,3237	8.2419	8.3444	-63	8.4273	-6.1	8,7606	-5.8	
ويستم اثان	(Mign)	250.34		339 • 329	2572:13	2498.76	-	-		-	•	-	
ings .	(1)	54.1488		214 - 721	54,2538	53.5800	54,1565	-0.2	54.1386	0.1	54.2972	-0.3	
ويهاد	(66)	67,4048		340 - 755 Se skor ody 11	70,7110	<b>67.1320</b>	67,9282	-8.3	68.9758	-9.3	79.6678	-83	

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<b>75</b> 13		mid-point	ON USA	Spicing.	· pitp	iow	. Refo	**	Rele	SPA	Rate	%PA	inde
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والمزيدي	(LFe)	37.4300	-0.24		37,8550	37,3900	37,4145	23	2 0350	22	2,0071	2.0	
ileterianis	(74)	2,0474		471 - 476	2.0690	2.0416	2.0434 7.5436	1.7	7.5225	. 1.5	7.4593	13	
HOCKEN!	(180)	7.5543	-0.0579	514 - 572	7.6350	7,5369 185,440	185.67	1.0	185,262	12	182.87	18	
Portugal .	(FI)	185.620	-1,08		187.720	153,960	154.33	ű	153.99	12	152,065	1.5	
Spein	<b>₽</b> ₩	154,445	-0.51	380 - 510	155.530	7.8938	7.8977	1.2	7.8834	1.1	7.5316	0.9	. 8
Sergician	(50)	7.9058	-0.0808	012 - 099	8.0114	1,4730	1.4705	47	1.4592	. 46	1.4142	42	10
Selizoriand	(SF)	1.4763	-0.0596	758 - 767	1.4926 .		1,888	1.8	1,6631	1.8	1,6435	1.6	10
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	-	1.0028	+0.008	925 - 930	1.0940	1.081U	1.0041	-1.7			-	-	
SDR†	-	0.745095	•	•	-	•	-						
Americas Americas	****	0.9995	-0.0003	996 - 995	0.9995	0.9965		-		-			
Arpertine. Bezal	(Paso)	1.1332		330 - 333	1,1335	1.1320	-			•	-	-	
Canada	529 (62)	1.4100		097 - 102	1.4105	1.4042	1.4089	0.9	1,407	0.8	1.4009	0.6	8
Marico	إحمار Olaw Penci	8.5580		550 - 610	8.5660	8.5550	8,6795	-17.0	8,915	-16.7	9,868	-153	
imento Lisa	Committee of the control of the cont	6.5080	-0.000	250 - 810	5.0000	مدوده				-		-	10
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Anstrila	(45)	1,4825	-0.0127	<b>817 - 632</b>	1,4905	1,4795	1,4817	0.6	1.4791	0.9	1.4624	1.0	
Hone Kess	962	7.7445	0.001	440 - 450	7.7466	7.7435	7.748	-0.5	7,7755	-1.6	8.0245	-38	
india	(Red	39,4895	-0.0005	720 - 270	39,5300	39.4700	-	-	-	-	-	-	
leaned.	ويعوى	3.5812	-0.0048	782 - 842	3,5838	3.5877	-	-	•	_ :	-	-:	
فعودك	Ċ	128.180	-1.4	130 - 280	129.050	127.900	127.63	5.1	126.555	5.1	121.815	5.0 -5.2	
يفبرينطا	(215)	3,7350	-0.125	300 - 400	3.9350	3.7020	3.7465	-3.7	3.7799	-4.8 -20	3.98 1.7409	-32 -16	
New Zealand	<b>#Z\$</b> )	1,7136	-0.0113	126 - 147	1.7215	1.7082	1,7167 39,9895	-22 -11.8	1.7221 40.858	-12.7	44.9145	-13.4	
Ph <b>Eppines</b>	(Peac)	39.5000		000 - 000	39,7000	39.5000		-0.6	3.7557	-125 -0.5	3.7703	-0.5	
Specif Acabia	(528)	3.7508	+0.0001	507 - 509	3.7510 1.6330	3.7505 1.5945	3.7527 1.5973	-0.6	1.5995	-08	1,6125	-1.1	
Segapore	_ <b>69</b>	1.5965	-0.0245	950 - 960	4.9895	4.9675	5.0028	-8.2	5.0673	-7.9	5.3428	-7.5	
South Africa South Korns	(A)	4.9690 1522.50	-0.0145 -28.5	675 - 705 700 - 800	4.3655 1.552.00	4.395/3 1508.00	3.0025	-04		-, -	-		
SOME HOUSE Talanda	(Rice) (TS)	152230 32,4135	+0.038	/UU - 2UU 080 - 190	32,4290	32,3400	32,4885	-2.0	32,5535	-17	33,0385	-1.9	
tguese The light	(13)	40.3500		000 - 000 feet - 13e	43.0500	40.2000	40,725	-11.2	41,475	-11.2	44.825	-11.1	

annice L	hed at	7.25 pa	r cen		ces, al	lso d	ue tor	norrow,	Henry How 2	sia Kesiand	(165) (165) (1628)	8.2393 2.8827	-0.1571 +0.0044	291 - 46 801 - 6		156 6.1		6.249 -1. 2.8555 -1.
Januar	y meet	er, but ing thr	ee ou	. sha				e by a	Philipp	ings .	Prose) (SR)	66.1519 6.2658	+0.075	850 - 31 637 - 63	87 66.3	400 65.6	<b>7855</b> 62	17014 -10. 12594 1.
of eight	t memi	ers su	portec	l the	under	lying	rate i	s expec-	South		63 60	2.6670 8.3007	-0.0192 +0.0425	637 - 70 957 - 05	03 27	018 2,5	9618 2	.6642 1. .3444 -6.
The :	minute	s of the	e com	. of 2	to hit 2.5 per			s target	South Tables	Xorga	(Milari) (TS)	2543.34 54.1488	-23.51 +0.4973	339 · 3	29 2577	213 249	6.76	L1985 -0.5
mittee', release	s Febra	uary m	eeting	, А	verage	e ear	nings :	for Jan-		_	(86)	67.4048 walk in the Pr	-3.768 and Sect to					7.9282 -8. Ing lada calcu
reveale	d that	the vo	te had	exp				day are ntinuing		1/2/95. The	-	ini prininji in		يلده مند د	cir on the lat	seret at http:	//www.FT.	
tightene George,	ed to i	four-all.	Eddie	stro	ong g			.75 per										
		TES A				3				_								
					HIVE	)												
EXCHA																		
Belokum	r 13 (BFr)	100	18.48	16.24	<b>Der</b> 4.847	1.933	<u>1</u> 4772	R	196y	Es	Pta	SXr	\$ <del>*</del> 7	£	CS.	\$	<u> </u>	Eca
Denmark France	(DKr) (FFr)	54.13	10	8.788	2.624	1.046	2583	5.463 2.957	20.16 10.91	495.8 268.3	412.1 223.0	21.09 11.42	3.939 2.132	1.597 0.864	3.762 2.036	2.668 1.444	342.0 185.1	2.442 1.322
Germany	(DM)	81.59 20.63	11.38 3.812	10 3.350	2.985 1	1.191 0.399	2939 984.5		12 <i>4</i> 1 4.158	305.3 102.3	253.8 85.01	12.99 4.352	2.426 0.813	0.984 0.330	2.317 0.776	1.643 0.550	210.6 70.56	1.504 0.504
<b>Ireland</b> Italy	(E)	51.73 2.095	9.557 0.387	8.399 0.340	2.507 0.102	1 0.041	2489 100	2.826 0.114	10.43 0.422	256.5 10.39	213.2 8.635	10.91 <b>0.442</b>	2.038 0.083	0.826 0.033	1.946 0.079	1.380 0.058	176.9 7.166	1.263 0.051
Netherlands Norway	(NOC)	18.31 49.61	3.382 9.166	2.972 8.056	0.887 2.405	0.354 0.959	873.6 2368	1 2.710	3.690 10	90.76 246.0	75.43 204.4	3.861 10.47	0.721 1.954	0.292 0.792	0.689 1.866	0.488 1.324	<b>82.</b> 61 1 <b>69</b> .7	0.447 1,211
Portugal Spain	(Es) (Pla)	20.17 24.27	3.727 4.484	3.275 3.940	0.978 1.176	0.390	962.6 1158	1,102 1,325	4.065 4.891	100 120.3	83.12 100		0.794 0.956	0.322 0.388	0.759 0.913	0.538 0.647	68.98 82.99	0.492 0.593
Sweden Switzerland	(SKr) (SFr)	47.41 25.39	8.759 4.691	7.898 4,122	2.298 1.231	0.916 0.491	2262 1212	2.590 1.387	9.556 5.117	235.0 125.9	195.4 104.6	10 5,355	1.887	0.757 0.405	1.784 0.955	1.265 0.577	162.1 86.83	1.158
UK Canada	ES CSS	62.61 26.58	11.57 4.911	10.17	3.035 1.288	1.210	2988 1269	3.420	12.62	310.4	258.0	13.21	2.466	1	2.355	1.671	214.1	1.529
USA	(E) (Y)	37.48	6.925	4.316 6.086	1.817	0.514 0.725	1789	1.452 2.047	5.358 7.554	131.8 185.8	109.5 154.4	7.906	1.047 1.476	0.425 0.599	1 1.410	0.709	90.91 128.2	0.649 0.915
Japan Ecu	(r)	29.24 40.98	5.402 7.567	4.748 6.650	1.417 1.985	0.565 0.792	1395 1955	1.597 2.237	5.894 8.255	145.0 203.1	120.5 168.8		1.152 1.613	0.467 0.654	1.100 1.541	0.780 1.093	169 140,1	0.714 1
Danish Kroser,					per 10; Belg	den franc,	Yea, Secondo	Line and Pene	ta per 108.									
# D-MARK	Per teres (		<u> </u>					^	■ 飛	LADELPH	M SE 投	OPTIONS S	31,250 (	ents per	pound)			
Mar	0.5473	Sett price . 0.5502	+0.0025		0.5	944 448	Est.voi 4,154	Open int. 49,969	Strike Price		Mar	CALL				Ptfi Ap	_	May
Jan Sep	0.5501 0.5612	0.5531 0.5558	+0.0025			476 512	19,154 89	67,036 1,667	1.660		0.87	1.79	1	2.45	-	1.0	6	1.99
M SWASS A	RANG FRITE	res gan s	R 125.00	) ner SFr					1.670 1.690		-	1.25 0.85		1.96 1.54	8.01 1.90	1.5 2.1		2.51 3.05
Mac	0.8725	0.6772	+0.0036		5 0.8	698	2,519	29,647	Previous	diy's wi.	CP's 108 Pd	de sale . Prev	q <b>al</b> <sub>4</sub> 2 dda	int, Calls	sata Puls ná			
Jun Sep	0.6811	0.8850 0.8824	+0.0037 +0.0038				12,193 23	52,472 1,212	■ Pi	LADEPE	¼ ⊈ D-W			62,500 <b>p</b>	per DNA			
R JAPANES	Ë YER FUT	URES (MAG	Yen 12.5a	per Yan 1	IDO				Strike Price		Mer	CALL Add	_	 May	Mar	PST Ap	_	
	Open	Sett polen	Change	. High		<b>W</b>	Estad	Open ist.	0.545 0.550		0.48	0.88 0.57		1.23 0.94	 OD1	0.2	8	0.51
Mar Jun	0.7750 0.7834	0.7800 0.7899	+0.0068				7,463 22,954	54,124 63.907	· 0.555		0.03	0.35		0.69	0.41	0.7		0.72 0.98
Sep	0.7968	0.7999	+0.0058				63	589	Provident	day's vol.,	Calls et Po	fan Apr. Pres.	qeA,s ober	1 M., Calls	nda Pada nda	ı		
STERLER	FOTURES	(MA) 282,5	00 per £						BEN	CHM	ARK (	GOVE	NME	NT E	BONDS	;		
Mar. Jun	1.6558 · 1.6464	1.6688	+0.0110				1,280	17,026	War 13		Red Cate	Совров	Bid Price	Bid Yield	Day chg yleid	Wilk chip yield	Month chg yti	Year chg yid
Sap	1.6480	1.6616 1.6544	+0.0110				12,928 7	17,132 602	Australi	•	04/00	7.000	103.883				-0.13	-1.71
1. Ta			·	`-	-				Anstria	:	10/07 ne/95	19,000 7,000	194.220					
	111										07/07	5.625	104,298				-0.12	
UK IN	HERE	ST RAT	IES						Belgion	ı	01/00 03/07	4.000 6.250	99.950 109.190		_			
LONDO	N MO	NFY R	ATES			-			Camada		09/99 06/07	4.750 7.250	99.700 113.250				-0.06 -0.05	
Her 13	,	Over-	7 days	Coe	The		Stx.	One	Democratic	k	12/99	6,000	102,970				_ <del></del>	+0.09
		night	72 - 71	7% - 7			12001\$18 1 - 7%	78 - 746			11/07	7.000	113,900		4 –			
telephone Charles	<del>fa</del> e	7% - 8%							Fished		MP.M	11 806	105,800	1 25	7 -0.09			-1.22
laterbank Star Starling CDs	fing .	7½ - 6½ -		72 - 7		74 7	9 - 73	72 - 72	Flatand		01/98 04/06	11.000 7.250	105.898 115.511	4.8	8 +0.02	-0.12 -0.12	-0.05 -0.16	-1.22 -0.15 -1,11
Starling COs Transary Bills Bank Bills	-	:	:	7½ - 7 74 - 7	% 71 - 1 71 -	74 7 74 7	夏-7是 - 2-7。	7 <u>3</u> - 7 <u>4</u> -	Finised France					0 4.8 0 3.9	8 +0.02 2 +0.01	-0.12	-0.05	-1.22 -0.15 -1.11 +0.14
Starling CDs Treasury Bills	deps.	7½ - 5½ - - - - - - - - - - - - - - - - - - -	7% - 7 71 - 71	7½ - 7	% 71 1. 71	74 7 74 7	夏-7是 - 2-7。				04/05	7.250 4.000	115.511	0 4.8 0 3.9 0 4.6 0 4.8	8 +0.02 2 +0.01 1 +0.01 0 +0.02	-0.12 -0.12 -0.05 -0.11 -0.11	-0.05 -0.16	7 -1.22 -0.15 3 -1.11 +0.14 3 -0.58 -0.69
Starling CDs Treasury Bills Bank Bills Local asthorty Discount Mani	y deps. est deps	7% - 7 7% - 7	7% - 7 71 - 71	7½ - 7 7½ - 7 7½ - 7	74 74 -	74 7 74 7	夏-7是 - 2-7。	7 <u>3</u> - 7 <u>4</u> -		7	04/05 01/00 10/04 10/07 10/25	7,250 4,000 6,750 5,500 6,000 4,000	115.511 100.132 111.890 104.520 107.710 100.270	0 4.8 0 3.9 0 4.6 0 4.9 0 5.4	8 +0.02 2 +0.01 11 +0.01 0 +0.02 5 +0.02	-0.12 -0.12 -0.05 -0.11 -0.11 -0.14	-0.05 -0.16 -0.06 -0.06 -0.10 -0.11	7 -1.22 3 -0.15 3 -1.11 4 -0.58 -0.58 -0.89 -0.86 +0.25
Starling CDs Transary Bills Bank Bills Local assilvorby	y deps. est deps	7% - 7 7% - 7	7% - 7 7% - 7 7% - 7% 6 per cent Up to 1	7½ - 7 74 - 7 7¼ - 7 7¼ - 7 1000 Nov 1-3	% 71 - 1 72 - 71 72 - 71 72 - 6, 1997	78 7 78 7 74 7 72 7	9 - 72 - 71 - 71 - 71 - 71	78 - 78 - 78 - 78 -	France	•	04/06 01/00 10/04 10/07 10/25 09/99 11/04 07/07	7.250 4.000 6.750 5.500 6.000 4.000 7.500 6.000	115.511 100.132 111.890 104.520 107.710 100.270 115.830 107.910	0 4.8 0 4.6 0 4.8 0 5.4 0 5.4 0 4.6 0 4.6	8 +0.02 2 +0.01 11 +0.01 0 +0.02 5 +0.02 7 +0.01 11 +0.06	-0.12 -0.12 -0.05 -0.11 -0.14 -0.01 -0.08	-0.05 -0.16 -0.06 -0.10 -0.11 -0.03 -0.07	7 -1.22 5 -0.15 6 -1.11 6 +0.14 6 -0.58 7 -0.69 -0.86 7 -0.62 7 -0.62
Starling CDs Transsary Billio Banik Billio Local assilionity Discount Manie UK cleaning bi	y deps. est deps enk base in	7% - 7 7% - 7 800 rate 79	- - 7% - 7 7% - 7% 4 per cent	7½ - 7 71 - 7 7¼ - 7 1000 Nov	74 74 74 74 74 74 74 74 74 74 74 74 74 7	78 7 78 7 74 7 72 7	9 - 72 - 71 2 - 73 - 73	7 <u>8</u> - 7 <u>8</u> - - - - - - - -	France	7	04/06 01/00 10/04 10/07 10/25 09/99 11/04	7.250 4.000 6.750 5.500 6.000 4.000 7.500	115.511 100.132 111.890 104.520 107.710 180.270 115.830	0 4.8 0 3.9 0 4.6 0 4.9 0 3.8 0 4.9 0 5.4	8 +0.02 2 +0.01 1 +0.01 0 +0.02 5 +0.02 0 +0.02 7 +0.01 1 +0.06 4 +0.01	-0.12 -0.12 -0.05 -0.11 -0.14 -0.01 -0.08 -0.08	-0.05 -0.16 -0.06 -0.10 -0.11 -0.03 -0.07	7 -1.22 3 -0.15 3 -1.11 4 -0.58 3 -0.58 -0.89 -0.86 4 -0.52 7 -0.52 7 -0.72 1 -1.05
Starling CDs Treesary Bills Bank Bills Local asthorty Discount Mark UK clearing by Certs of Tax de Me, twelver ser	y deps. est deps enk base lar c dep. (210 p. ander 2100 p. ander 2100	7% - 7 7% - 7 800g rate 79 2000 to 25ppc on Mar 13, 7,0	7% - 7 7% - 7 7% - 7 4 per cent Up to 1 snorth 234 Deposits wi	7½ - 7 74 - 7 74 - 7 74 - 7 74 - 7 1000 Nov 1-3 1000 532 16desen for	74 74 - 74 - 75 - 75 - 75 - 75 - 75 - 75	74 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7	2 - 72 2 - 73 3 - 73 - 73 - 73 - 73 - 73 - 73 -	78 - 78 - 78 - 78 - 78 - 78 - 78 - 78 -	Connec	*	04/05 01/00 10/04 10/07 10/25 09/99 11/04 07/07 07/27 04/99 08/06	7.250 4,000 8.750 5.500 6.000 4.000 7.500 6.000 8.500 6.250	115.511 100.132 111.890 104.520 107.710 180.270 115.830 107.910 115.320 101.620 119.530	0 4.8 0 4.8 0 4.8 0 5.4 0 4.6 0 4.6 0 4.6 0 5.4	8 +0.02 2 +0.01 11 +0.01 0 +0.02 5 +0.02 7 +0.01 11 +0.06 14 +0.01 2 +0.02 6 +0.02	-0.12 -0.12 -0.05 -0.11 -0.14 -0.01 -0.08 -0.15 -0.04	-0.05 -0.16 -0.06 -0.10 -0.11 -0.07 -0.07 -0.07 -0.07 -0.07 -0.07	7 -1.22 3 -0.15 3 -1.11 4 -0.58 3 -0.88 9 -0.88 7 -0.88 7 -0.89 1 -0.52 7 -0.72 1 -1.05 1 -1.80
Starling CDs Transvery Bills Bank Bills Local asthorty Discount Made UK cleaning by Cents of Tax	y deps. est deps enk base les deps. (210 p. wider £100 de deps. (210 de deps. (210	7% - 7 7% - 7 7% - 7 eding rate 79 10,000 to 2%pc. on Mar 13, 798 Mar 25, 198	7% - 7 7% - 7% 4 per cent. Up to 1 snonth 254 Ospopla w	7½ - 7 74 - 7 74 - 7 744 - 7 744 - 7 1000 Nov 1-3 10005 532 Midrated rate 1998, Schap	74 74 - 74 - 75 - 75 - 76 - 76 - 76 - 76 - 76 - 76	74 7 74 7 74 7 74 7	2 - 72 - 73 - 73 - 73 - 75 - 75 - 75 - 75 - 75 - 75 - 75 - 75	78 - 75 - 75 - 75 - 75 - 75 - 75 - 75 -	France	<b>Y</b>	04/05 61/00 10/04 10/07 10/25 08/98 11/04 67/07 07/27 04/98 08/06 05/02	7.250 4,000 6,750 5,500 6,000 4,000 7,500 6,000 6,250 8,000 6,250 6,250	115.5111 100.132 111.890 104.520 107.710 100.270 115.830 107.910 115.220 101.820 103.070 105.830	0 48 0 39 0 48 0 48 0 54 0 54 0 54 0 54 0 54 0 54 0 54 0 54	8 +0.02 2 +0.01 11 +0.01 10 +0.02 5 +0.02 17 +0.01 11 +0.06 14 +0.01 12 +0.02 8 +0.02 8 +0.02	-0.12 -0.05 -0.11 -0.11 -0.14 -0.07 -0.08 -0.15 -0.08 -0.15 -0.08	-0.00 -0.10 -0.00 -0.10 -0.11 -0.00 -0.00 -0.01 -0.01 -0.01 -0.01	-1.22 -0.15 -1.11 +0.14 -0.98 -0.98 -0.98 -0.98 -0.98 -0.99 -0.97 -1.09 -1.09 -1.09 -1.09 -1.09
Starling CDs. Transary Bills Baskery Bills Baskery Bills Local assiltantly Discount Medi UK clearing by Cents of Tax do Nos. tender sate 1988. Agenced in 31, 1988 to Fel	y deps. est deps gait base la  c dep. §210 p. ander £100 and deponant of the land and land an	7% - 7 7% - 7 7% - 7 ading rate 73 00,000) 2,000 is 25spc. os Mar 13, 798 Mar 25, 198 staumes N & V	7% - 7 74 - 74 6 per cent Up to 1 snowth 294 Osposits widespe. 25 to Apr 25, 17.532pc. Fi	7½ - 7 7½ - 7 7¼ - 7 7¼ - 7 from Nov 1-3 mont 55/ 55/ 588, Schen space House	74 74 75 76 77 77 78 77 78 78 78 78 78 78 78 78 78	74 7 74 7 74 7 73 7 8 nths	6-9 months  Ship in the second	78 - 78 - 78 - 75 9-12 scontins 444 y Feb 27, eriori Jam	Connec	y	04/05 01/00 10/04 10/07 10/25 09/98 11/04 07/07 07/27 04/99 08/06	7.250 4.000 6.750 5.500 6.000 4.000 7.500 6.000 8.500 6.250 8.000	115.511 100.132 111.890 104.520 107.710 100.270 115.830 107.910 101.820 119.530 103.070	0 48 0 39 0 46 0 48 0 54 0 54 0 54 0 54 0 54 0 54 0 54 0 54	8 +0.02 2 +0.01 11 +0.01 0 +0.02 5 +0.02 7 +0.01 1 +0.06 1 +0.03 2 +0.03 8 +0.03 8 +0.03 3 +0.01	-0.12 -0.05 -0.11 -0.11 -0.14 -0.07 -0.08 -0.15 -0.08 -0.15 -0.08	-0.05 -0.16 -0.06 -0.10 -0.11 -0.07 -0.07 -0.11 -0.27 -0.27	-1.22 -0.15 -1.11 +0.14 -0.88 -0.88 +0.55 -0.02 -0.02 -1.05 -1.39 -1.99 -2.69 -2.69 -2.69
Starling CDs. Transary Bills Baskery Bills Baskery Bills Local assiltantly Discount Medi UK clearing by Cents of Tax do Nos. tender sate 1988. Agenced in 31, 1988 to Fel	y deps. est deps gait base la  c dep. §210 p. ander £100 and deponant of the land and land an	7% - 7 7% - 7 7% - 7 ading rate 73 00,000) 2,000 is 25spc. os Mar 13, 798 Mar 25, 198 staumes N & V	7% - 7 74 - 74 6 per cent Up to 1 snowth 294 Osposits widespe. 25 to Apr 25, 17.532pc. Fi	7½ - 7 7½ - 7 7¼ - 7 7¼ - 7 from Nov 1-3 mont 55/ 55/ 588, Schen space House	74 74 75 76 77 77 78 77 78 78 78 78 78 78 78 78 78	74 7 74 7 74 7 73 7 8 nths	6-9 months  Ship in the second	78 - 78 - 78 - 75 9-12 scontins 444 y Feb 27, eriori Jam	Connec	7	04/06 01/04 10/04 10/07 10/07 10/07 01/07 07/07 04/06 05/00 05/02 11/04 05/00 05/00 05/00 05/00 05/00 05/00 05/00	7.250 4.000 6.750 5.500 6.000 4.000 6.500 6.500 6.500 6.500 6.500 6.500 6.750 7.7250 6.400	115.5111 100.132 111.890 104.520 107.710 100.279 115.830 117.520 101.820 110.530 111.830 122.500	0 48 0 39 0 48 0 48 0 54 0 54 0 54 0 54 0 54 0 54 0 54 0 54	8 +0.02 2 +0.01 11 +0.01 0 +0.02 5 +0.02 6 +0.02 7 +0.03 11 +0.06 14 +0.01 15 +0.02 8 +0.03 8 +0.03	-0.12 -0.05 -0.11 -0.11 -0.14 -0.08 -0.08 -0.15 -0.08 -0.16 -0.08 -0.14	-0.05 -0.10 -0.00 -0.10 -0.00 -0.11 -0.00 -0.11 -0.27 -0.27 -0.28 -0.29 -0.18	-1.22 -0.15 -1.11 -0.93 -0.99 -0.99 -0.92 -0.72 -1.05 -0.72 -1.09 -1.99 -1.99 -2.99 -2.99 -2.99 +0.01
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Starling CDs Treasury Bills Bank Bills Local assiltoring Discount Media UK cleaning b UK cleaning b Conts of Tax da Ann. Index of Tax d	y deps. et deps gaix base las t dep. \$210 p. white \$100 p. white \$100 p. 27, 1986, \$ OF EN	7% - 7 7% - 7 7% - 7 30,000 la 25 pc. on Mar 13. 75 Mar 23, 1988 channes N & V GLANII Mar 13 2100m n²a 2100m	7% - 7 7% - 7% - 7% - 7% - 7% - 7% - 7%	7½ - 7 7½ - 7 7½ - 7 7¼ - 7 7¼ - 7 7¼ - 7 1cum Nov 1-3 propoli 5½ hidrann for o 1-808, schen pance Haus  Top ac Job. 19 Average Offer a	74 74 77 75 77 76 77 78 7 78 7 78 7 78 7 78 7	73 7 74 7 774 7 7 774 7 7 774 7 7 7 7 7	9 - 73 2 - 74 3 - 74 6-9 months 5 Mar 13 8.83607 7.93839 7.93839	78 - 78 - 78 - 78 - 78 - 78 - 78 - 78 -	Coccusion levels and a second	inds	04/06 01/00 10/07 10/07 10/25 09/99 11/04 07/07 07/27 04/99 08/06 05/02 07/07 11/26 03/00 12/02 09/17 11/02 09/17 11/02	7.250 4.000 8.750 5.500 6.000 4.000 8.500 8.500 6.250 8.000 8.250 8.000 8.250 8.000 9.250 8.000 9.250 8.250	115.511/ 100.132/ 111.890 104.520 107.710 160.270 115.830 107.510 117.520 119.530 103.070 105.830 111.630 111.	4.80 3.90 4.80 4.80 4.80 5.40 5.40 5.40 5.40 5.40 5.40 5.40 5.4	8 +0.02 2 +0.01 0 +0.02 5 +0.02 6 +0.02 7 +0.03 7 +0.03 8 +0.02 8 +0.03 8 +0.03 8 +0.03 8 +0.03 1 +0.03 1 +0.03 8 +0.03 1 +0.03 1 +0.03 8 +	-0.12 -0.85 -0.11 -0.11 -0.14 -0.08 -0.08 -0.08 -0.08 -0.18 -0.08 -0.19 -0.09 -0.19 -0.09 -0.10 -0.09 -0.10 -0.09 -0.10 -0.09 -0.10 -0.09 -0.10 -0.09 -0.10 -0.09 -0.10 -0.09 -0.09 -0.09 -0.09 -0.09 -0.09 -0.09 -0.09 -0.09	-0.06 -0.16 -0.07	-1.22 -0.15 -0.15 -1.03 -0.89 -0.89 -0.82 -0.82 -0.82 -0.82 -0.82 -1.90 -1.90 -1.90 -2.90 -2.90 -0.61 -0.61 -0.63 -0.62 -0.63 -0.60
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B.A.T. INTERNATIONAL FINANCE p.l.c. (the "Issuer")
(a company incorporated with timited (inbility under the laws of England and Wales)

NOTICE

to the holders of the outstanding £300,000,000 9% per cent. Guaranteed Bonds Due 2020 of the Issuer (the "Bonds")

(the "Bonds")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that, at the adjourned Moeting of such holders convened by the Notice published in the Financial Times on 24th February, 1998 and held on 12th March, 1998, the Estraordinary Resolution set out in such Notice was duly passed. Accordingly, the proposal for early repayment of the Bonds referred to in the Estraordinary Resolution has become effective and the repayment price of the Bonds is £1,332.29 per £1,000 in principal amount of the Bonds. Payments of the repayment price and accrued interest will be made subject to, and in accordance with, such proposal and Condition 7 of the Terms and Conditions of the Bonds on presentation and surrender of the Bonds and all unmatured interest coupons appertaining thereto at the specified office of either Paying Agent on or after 17th March, 1998.

This Notice is given by:
B.A.T. International Finance p.l.c.
Windsor House, 50 Victoria Street,
London SW1H ONL

Dated: 16th March, 1998



Investment Bank Italian Lira 300 Billion **Capped Floating Rate** Notes due 1999

Notice to the Holders Notice is hereby given that the Notes will carry an interest rate of 6.15625% per annum for the period 16.03.1998 to 15.06.1998.

 TTL 77,808
 per ITL 5,000,000 nominal
 TL 778,082
 per ITL 50,000,000 nominal Luxembourg, March 16, 1998

Floating Rate Depositary Receipts due 2003 issued by The Law Debenture Trust Corporation plc evidencing entitlement to payment of principal and interest on deposits with Banco di Napoli

US\$100,000,000

Hong Kong Branch

The receipts will bear interest at 6.125% per annum from 16 March 1998 to 15 Septemb 1998. Interest payable on 15 September 1998 will amount to US\$31.14 per US\$1,000, US\$311.35 per US\$10.000 and US\$3,113.54 per US\$100,000

Agent: Morgan Guaranty Trust Company

JPMorgan



**European Investment Bank** PTE 30 Billion Floating Rate Bonds due March 2005 (issued on March 15, 1995) PTE 30 Billion Floating Rate Bonds due March 2005 (issued on June 15, 1995) Notice to the Holders

Notice is hereby given that the Bonds will carry an Interest. Rate of 4.455% per annum for the period March 15, 1998 to June 15, 1998.

• PTE 1,123 per PTE 100,000 nominal • PTE 11,229 per PTE 1,000,000 nominal PTE 112,290 per PTE 10,000,000 nominal
 PTE 561,452 per PTE 50,000,000 nominal

Luxembourg, March 16, 1998

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further details please telephone:

Toby Finden-Crofts on +44 171 873 4027

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ROYAL, BANK OF CANADA

THE ROYAL BANK OF CANADA U.S. \$300,000,000 Floating Rate Debentures due 2085 Debentures due 285
NOTICE IS HERRESY GIVEN that for the Interest Period commencing on 17th March, 1998, the Notas will bear interest at the rate of 5.875% per annum. The interest payable on 17th June, 1998 against Coupon No. 48 will be U.S. \$15.013888 per U.S. \$1,000 norminal. Agent Bank

To Advertise

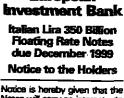
Your Legal Notices Please contact Melanie Miles on Tel: - 44 0171 873 3349 Fax: \$44,0171,873,3064



Dividend No. 443 NOTICE IS HEREBY GIVEN THAT a dividend of 42 cents

per share upon the paid-up Common Shares of this Bank has been declared payable for the current quarter at the Bank and its branches on and after May 22, 1998 to shareholders of record at close of business on April 24, 1998.

By Order of the Board Jane E. Lawson Senior Vice-President & Secretary March 5, 1998



Notes will carry an interest rate of 5.40625% per annum for the period 16.03.1998 to 15.06.1998. • ITL 68.329

per (TL 5,000,000 norminal + (TL 683,290 per ITL 50,000,000 nominal Luxembourg, March 16, 1998

### **LEGAL NOTICE**

PARTITION COURT OF JUSTICE CAMCEN DIVERSOR

CAMCEN DIVERSOR

NO. 003081 OF 1997

IN THE MATTER OF

FREMONT INSURANCE

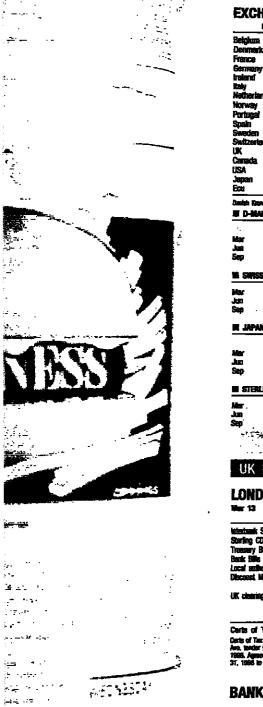
COMPANY (UK) LIMITED FREMONT INSUFRANCE
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COMPANY (URC) LIMITED
AND RYTEE MATTER OF SECROIC 425 OF TER.
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Ar a mening held on 15 December 1997 in London, the
Schiene of Arrangement i'the Schiene') between
Fremont Incorpance Company (IRC) Limited I'the
Company) and its Schiene Cardinos to defined in the
Schiene' value approved by the republic majority of
Schiene Creditors.
On 4 March 1998, the 19th Court of busing of Schiene
and Wales I'the Court's strationed the Schiene in the
form approved by the Schiene Creditors and dispringed
the winding up patiene.
On 10 March 1998, an effect copy of the Court Order
standards for Schiene are defined to the Registers of
Companies for registration. The Efficitive Date of the
Schoen is, therefore, 10 March 1998.
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Dated the Title skey of March 1958



Floating Rate Notes due 2004 Notice is hereby given that the Notes will carry an Interest Rate of 5.35625% per armum for the period 16.03.98 to 15.06.98.

• ITL 87,698 per ITL 5,000,000 nominal • ITL 676,971 per ITL 50,000,000 nominal Luxembourg, March 16, 1988



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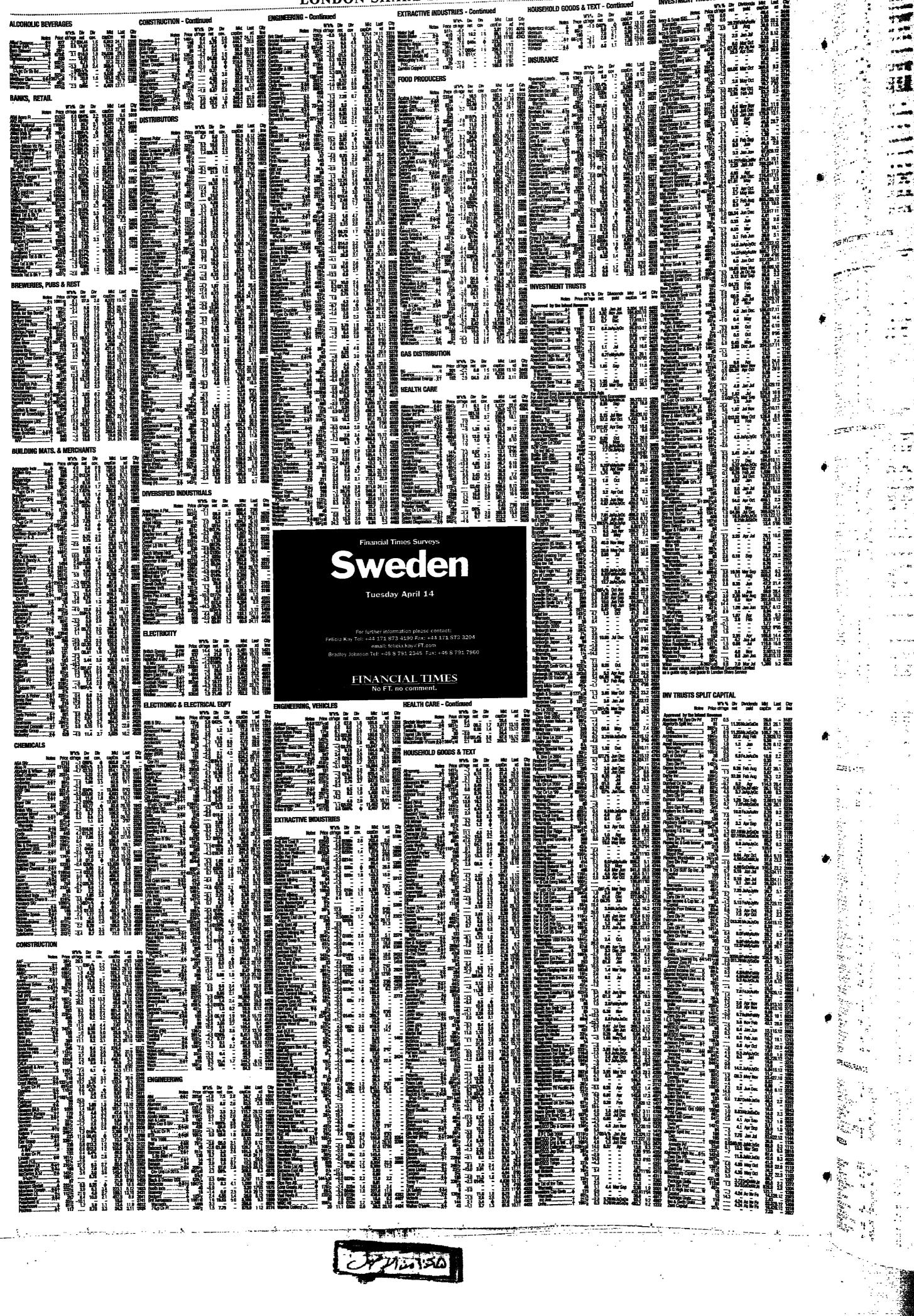
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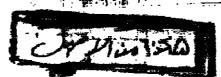
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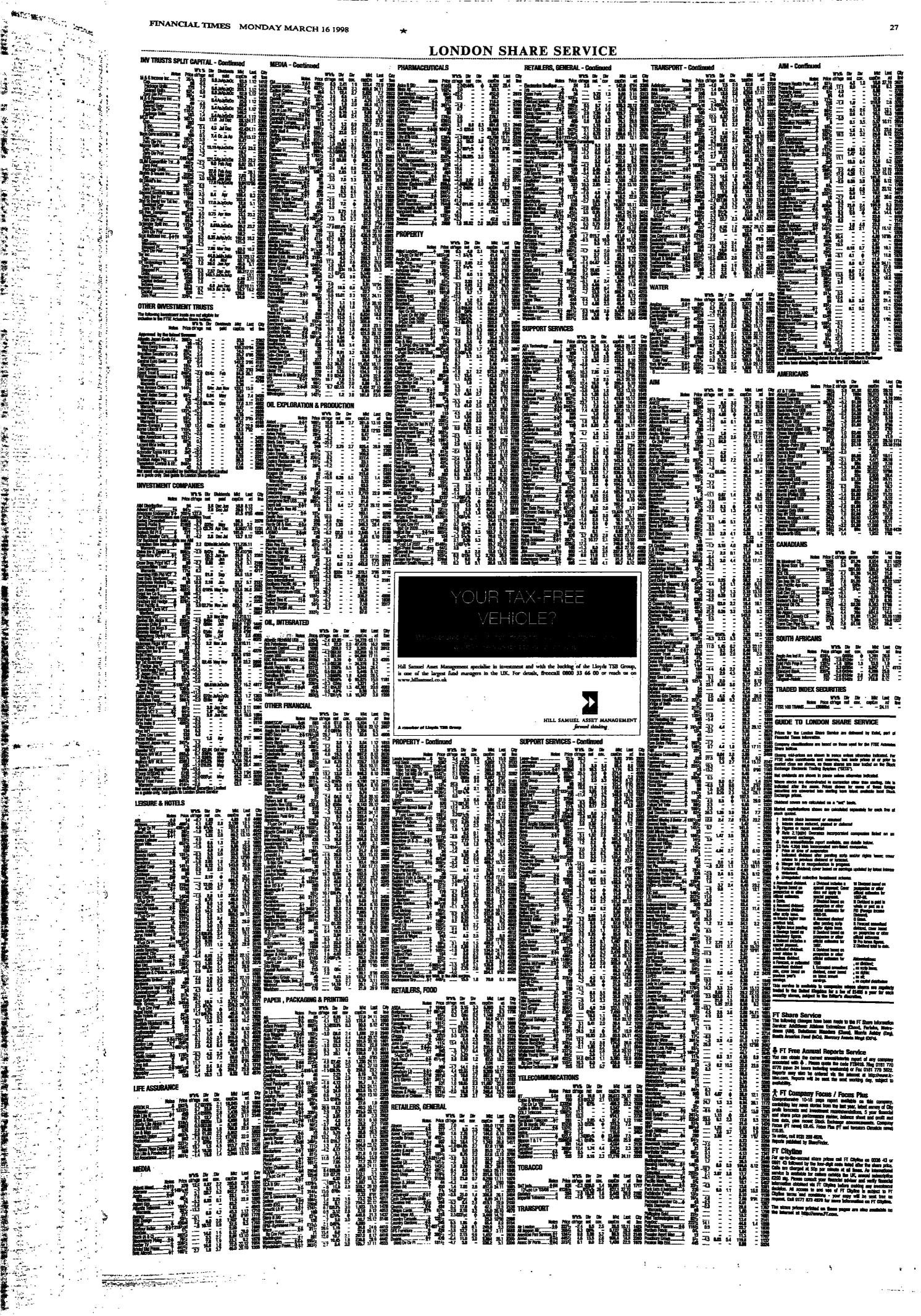
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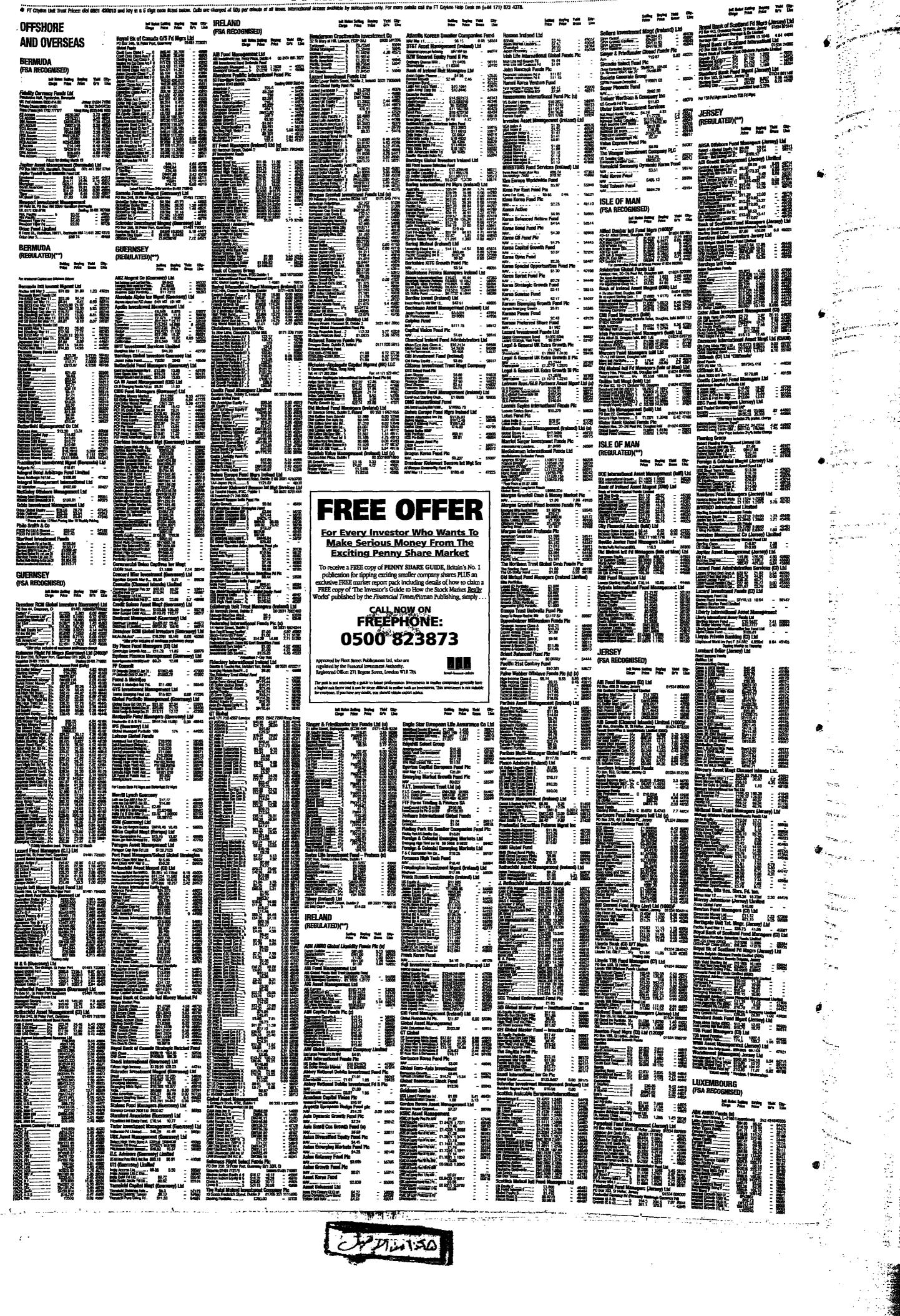


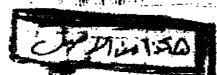




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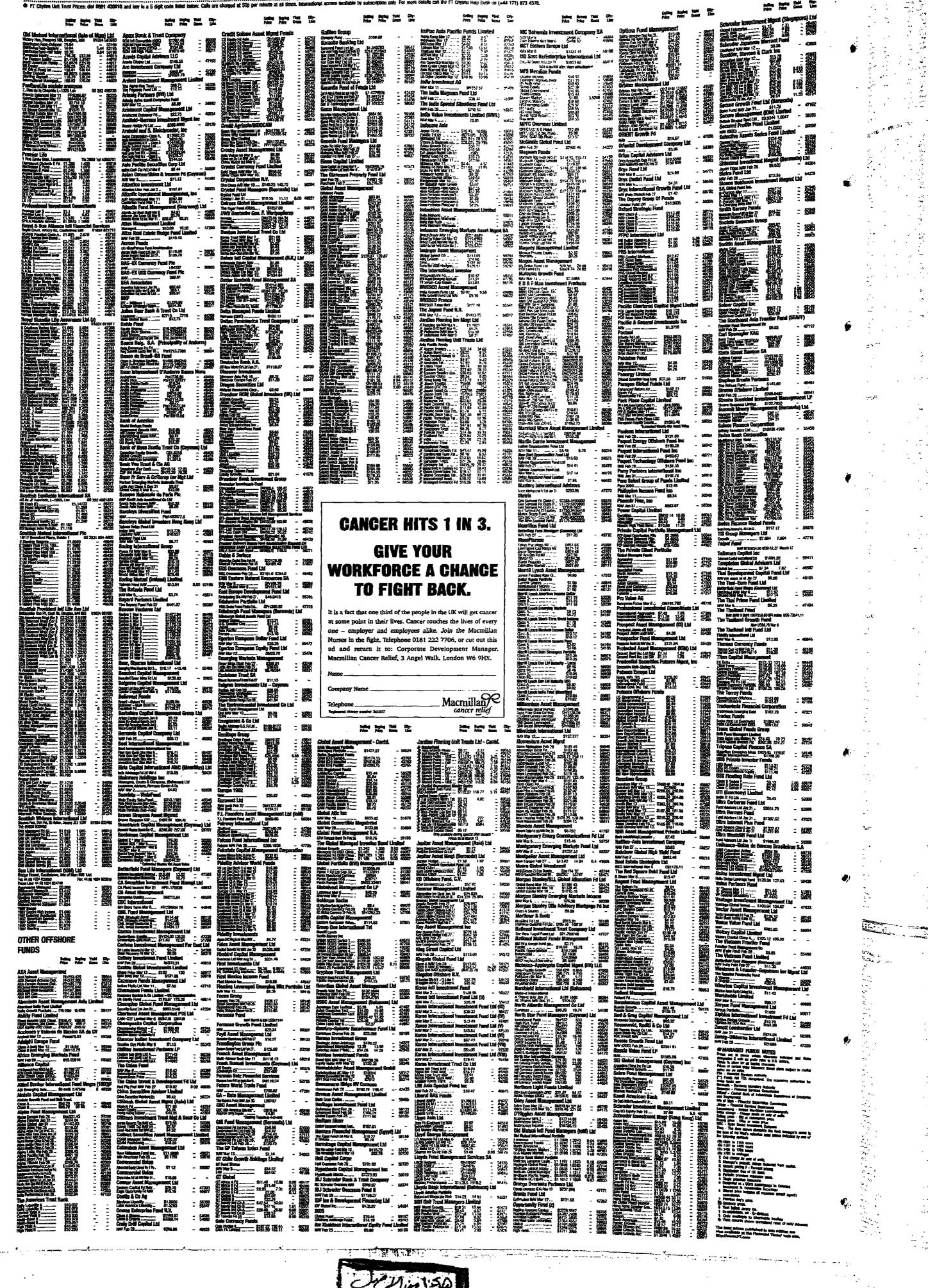


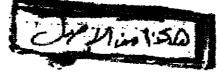
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Offshore insurances and Other Funds





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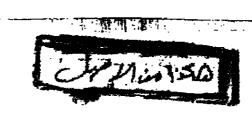
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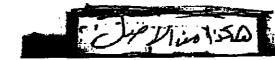
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**GLOBAL EQUITY MARKETS** 1997/96 High Low 41.22 3540.23 3636.57 3538.43, 3638.43 2256.97 3538.43 idal 225 17060.14 16575.22 16756.14 85.25 CAC 40 3,462 1,501 1,405 553 343 22 3,460 1,492 1,396 579 293 19 3,484 1,748 1,233 506 318 Dec's hint: 3969.23, Dan's lost: 3516.68. Ome's high: 17128.07 Day's lost: 18554.76. 105.48 54.89 (15/1/98) (1/10/81) TOKYO TRADING ACTIVITY III PARES TRADORE ACTIVITY (144497) 2222.07 3575.07 13.23 E ACTIVE STOCKS ACTIVE STOCKS (2/1/97) (12/2/98) 209.47 276.71 Day's Day's change choe % 16.53 (10/3/98) (25/4/97) (10/3/98) Upa Bruther Ind Case Papard Thanki Pap Michiel Miyashi Oli Alchi Cp Showa Kato Downs Nazaki & Co 23,286,000 17,255,000 8,757,000 9,573,000 9,183,000 8,962,000 8,475,000 8,475,000 7,888,000 7,781,000 +3.85 +21.0 + 33.0 +22.5 -2.1 Unince Bgo Hait Paris Alcatel Reseal France Tel Haves Sept. Cir Gee AXA—UNP As Go France Ref. +24.5 +20.4 +17.6 +12.1 +12.1 +12.1 +80 +22 +23 +20 +27 +75 +32 406 150 154 185 250 695 297 ACTIVE STOCKS 452.0 248.5 318.0 607.0 984.0 608.0 331.4 452.6 Studies Coses prices and control of the control of (12/3/98) (21/97) (12/3/98) (1/6/32) 855-62 12/62-32 3.52 (11/4/97) (12/3/98) (20/6/32) -16.4 -14.1 -1.45 -7.8 -26.2 -7.3 -5 -6.8 Lipe
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E \$22 500 E CAC-40 (200 x leded) 29,314 5,608 50,226 1,828 Mar Jun 2890.00 2830.25 6,885 1977,00 1088.00 +17.0 +17.0 -1.70 -2.10 59,331 126,719 Mar Apr 223.621 1.031 201,694 Open let. 1078.40 **F Jacks** 225 Sett price **BAX** Est. vol. 4,907 1,060 4878.0 4909.5 4917.0 4943.0 4837.0 4872.0 86,107 60,817 +85.0 +73.9 7358.0 7363.0 7293.5 7323.0 16580.0 16800.0 +51.5 +<u>52.0</u> 193,732 12,583 Open Interest Squares for previous day WORLD MARKETS AT A GLANCE 承Yead 小子PE Mar 12 1997/98 Low **Mar** 11 4291.30 \$/1/97 Delied Wall St fails, driven ligher by ADRs, but there was no buying spree. 27195 611.8 2714.8 2779.29 25/9/97 614.2 987.10 24/2/97 5152-26 5133.25 5101.49 11957.51 11819.22 11843.34 EDP legal the lone positive. 2229.20 28/10/97 641.10 27/11/97 BNL 30 PSI 20 Firm local bonds and rafy in Japan behad states higher. **338.53** 15/12/97 213.38 6/1/97 Options in water of central bank's cut in interest rules tempored by news of President Yellsin's health across. maker Mayr-Meighol jumped 4 per cant and bosiery group Wolland tumbled elemost 324.02 12/1/96 1073.47 12/1/98 423.19 421.25 414.53 673.03 1772/97 1598.53 1580.84 1577.84 2271.88 201/97 BB.20 1671.05 2/1/RF 137.64 136.10 137.61 208.64 21/3/97 136,10 12/3/98 ied after four days of record tows, beliped by gains in stephnaker ISZ. 155,74 3/1/97 450.63 452.00 447.97 452.00 12398 164 4302.01 4302.74 4333.32 5891.75 102398 7386.10 7402.30 7345.80 7402.30 12398 3757.01 3774.30 3747.21 3774.30 12398 addo down after an early surge holded like bringing yet another uth Africa JSE Golf 729.19 734.3 741.8 1588.10 27259 JSE ted. 8518.99 8453.0 8390.3 6514.20 778517 ancial sector recepted strong, but profit-lating weighed on other sectors. 342.12 11/4/97 680.42 2/1.97 10492.08 3/1.97 3442.35 12/1/98 5679.38 14/4/97 2646.02 11/4/97 8715,10 12/1/90 Bidesi 225 17060.14 16575.22 16756.14 20681.30 165/97 Bideni 300 251.52 246.63 249.08 303.21 249/97 Topix 1276.20 1245.71 1251.11 1586.28 265/97 2nd Section 1339.47 1334.00 1346.40 1886.25 304/97 back of medie report find government planned to use 17,3000c of public lands to 1456L40 12/1/98 224L85 12/1/98 1129L81 12/1/98 1168L95 24/12/97 535.84 531.05 Kanta KuresCupeC" 536.16 536.84 531.05 792.20 17/6937 360.68 rday trading a luck of demand from lareign investors pushed the Kores Capelk down 2.60 to 533.56. 4829.24 4768.99 4764.59 5888.71 47787 IGPA Gen® 4243.47 27/1/98 820.51 811.56 805.05 820.61 13/3/98 ers, a good performance from ADRs and a sharp dee in Teleco hich posted large gains earlier this week, mat out of stones, but conject still classif at record high. 56.34 55.08 95.51 96.53 55.57 98.21 7/5/97 95.87 194.20 6/5/97 46.89 12/1/98 77.98 12/1/98 CSE Al Stern 707.20 (c) 707.00 868.70 31/7/87 (minated faule while local relati investors were addition about of one plantation Jordan, Accusen SE (c) tc) 171. The lodge ended 0.27 per cent lower at 170.58 in moderate trade. Hard currency B stores relacid as traditio shalled to Standari on fears over currency appears for Sharchen stocks Swinten Attemperation 3494.4 3473.7 3451.1 3494.40 13/3/66 2378.5 HE a record high for the AMI-consecutive session as interest continued to concentrate around high chips. 1150.95 1167.31 1169.69 1533,72 16/10/97 E Comp. 708.16 698.23 708.91 1271.57 25/2497 after very quiet cession. TRI railled on casules that hobided provision for 477.57 12/1/98 7328.0 7267.9 7278.7 7228.00 13/3/98 4566.86 4529.79 4529.07 4556.86 13/3/98 484.1 467.8 491.3 628.00 25/2/97 lons made for dull trade compared with activity in neigh hammark CopeningenSE 72492 710.53 711.50 72492 13/3/58 The chips scaled new beights with investors still expinate over general election results. CHSA 711,09 706.40 705.82 711,09 13/3/98 procedure gale in response to strong corporate results. 451.90 3/1/97 in outsier volume of TS158bn. Electronics swarts back from early bases to finish 0.6 per cent higher. ding, the Cales SE Gen Indiax closed up 0.77 at 375.21. 4273.77 4223.11 4178.45 4273.77 13/3/98 2299.17 2268.75 2249.02 2656.48 22/10/97 2162.01 38/10/97 SSF 250 2298.45 2294.99 2298.03 2299.45 13/398 CAC 40 3540.23 3526.57 3639.43 3540.23 13/398 at week of strong profile news, surging 10 per cent and specially upbeat. 1533.19 2/1/97 2256.97 2/1/97 Dictions on fortical 6801.51 18/12/97 1580,05 1564,13 1584,75 1580,85 13/3/98 986.21 2/1/97 FAZ Aldien 4671.20 .4616.70 .4619.10 .4671.26 13/3/98 .4889.65 .4839.60 .4832.76 .4889.65 .13/3/98 2075.80 271/97 280.47 280.26 282.64 13/3/98 10/37.5 10/36.8 1949.00 13/3/98 Lonningzzess, 401,22 spl.c.ru 401,140 407,120 i33470 204350 21457 DAXC 4889,65 1433,60 4832,76 4889,65 133476 2484,77 21457 Individue pressure eller Thusday's dispopoliting ligures and its downbeat dispok for its carrent yea FI/SEP World(S) NG Capital India 282.64 1048.0 1818 % 1597.36 1631.57 2097.98 22/10/97 79U50 144V97 3087.76 3085.98 3077.44 3867.78 13/3/98 2989.97 2967.95 2974.45 2989.07 13/3/98 1160.45 1153.07 1157.50 1180.45 13/3/98 Reace Afteria SE 1537.37 1543.62 1531.26 1794.14 8/10/97 FTSE/I/SE 20 868.77 872.86 882.83 898.85 1U/12/97 Amilied profil falling in banks and drachros's weakness in foreign exchanges left madest assis 1823.55 3/1/97 1834.52 2/1/97 874.08 28/10/97 954.54 2/1/97 755.18 29/1/98 Pear Using Ges 1842.65 1645.30 1842.43 2289.40 10/7/97 14. Burst of laterant in mining sector not enough to distinct from continuing workes on effects of 8 Millio. FISE E300 FISE E100 HSBC JC Drgo MG Brage Exory Hong Kong Hang Seng 11057.03 10902.47 11118.85 19673.30 7/8/97 HSCC Red Chip 1802.66 1594.56 1846.58 4118.65 27/8/97 ISSC led blue chips higher, but resolut volutoe rannahud subduced at HASS.2bn. \*\* Sat New 7- Tolumon Wileyland Price 1855/74, Votes Wighest New Journal Comp Ex 525/84. §§ Microbraid, 47 Toronto, Cpi Classed, by Workship State Only 19 Sept Associated and Transportation. § The ELI Vest. Independent and Transportation. § The ELI Vest. Independent New National Price 1855/74, Votes Natio

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Section 1

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THE NASDAQ STOCK MARKET

THE NASDAQ STOCK MARK 200 F 

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#### MONDAY 16

#### **Human rights landmark**

The UN Commission on Human Rights meets in Geneva for its annual six-wee session to review the state of human rights around the world. This year's session, which marks the 50th anniversary of the universal declaration of human rights, will be addressed by, among others, former dissident and now Czech president Vaclav Havel, Lionel Jospin, French prime minister, and Kofi Annan, UN secretary-general. Human rights groups say the 53-member commission is too politicised, citing the European Union's decision not to press a resolution criticising China this year, and the past failure of the commission to investigate the massacres in Algeria.

#### Schröder's plans

Gerhard Schröder, the Social Democratic challenger to Chancellor Helmut Kohl in September's federal elections in Germany. is expected to outline further details of his election programme in Bonn, His press conference will follow an earlier meeting of the SPD's federal and state leaders which could provide a further opportunity for left-wingers to stamp their imprint on the programme. German industry has already criticised Mr Schröder's hints that he will repeal structural reforms implemented by .

#### IADB gathers

Bankers and finance officials have been gathering over the weekend in Certagena, Colombia, before the annual meeting of the Inter-American Development Bank formally gets under way today. The main item on the official agenda will be whether to double the bank's ability to lend directly to private sector borrowers to finance much needed infrastructure projects in the region. in the wings, bankers and officials will discuss whether the region will escape the worst of the fall-out from Asia's financial

#### **Good Korea move**

Four-party peace talks on the Korean peninsula resume in Geneva for a five-day session after an historic first round last December. The talks between North and South Korea, the US and China, almed at forging a permanent peace treaty to replace a fraying 1953 armistice, will focus this week on confidence-building and new president Kim Dae-Jung sald In his inaugural speech last month that he would actively pursue Korean reconcilation but North Korea, preoccupied by worsening food shortages, has put the country under "wartime mobilisation".

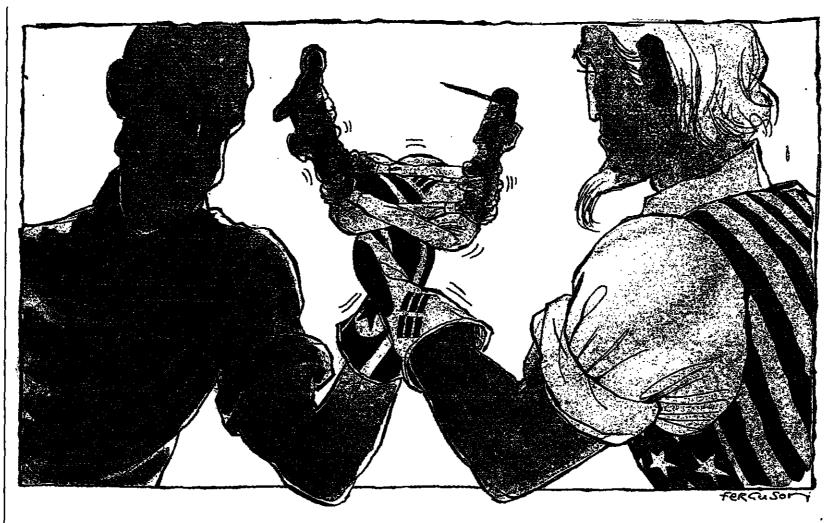
#### Lines of communication

Telecoms officials and industry representatives from over 100 countries meet in Geneva for the second World



to have remained strong,

reflecting demand for credit



The US, China and North and South Korea meet this week for the second round of talks in Geneva aimed at resolving the bitter conflict between the two halves of the Korean penin

Telecommunication Policy Forum. The main theme of the three-day forum, hosted by will be moves to reform the system of accounting rates that telecoms operators pay each other to connect international calls. The ITU is urging all its 188 members to work towards cost-based payments to replace the crumbling structure of bilaterally negotiated rates, a change that could nevertheless cost developing countries billions of dollars in valuable hard currency.

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#### Chinese posts

The election of the president and vice-president of China are the highlights of the 12th day of the annual session of the National People's Congress; leaders and members of the Chinese parliament's standing committee are also voted in, together with the chairman of the country's Central Military Commission.

#### Opec monitors output

The ministerial monitoring committee of the Organisation of Petroleum Exporting Countries holds its regular meeting. The committee, comprising three ministers and Opec secretary general Rilwanu Lukman, will monitor oil market developments and the output of individual member states.

### Beef ban talks

European Union farm ministers meet amid hopes they will agree the first easing of a ban on UK beef exports since an embargo was imposed two years ago. The European Commission, the EU's executive, is backing a scheme that would allow exports from Northern Ireland, which has a low incidence of BSE mad cow disease, cause of the ban, and keeps computer records of cattle

### FT Surveys

UK Mid Market Companies: Pharmaceuticals.

#### Holiday Australia.

**TUESDAY 17** 

#### Brown's big day

The UK Budget will be one for accountants rather than for economists, according to one analyst. Most expect chancellor of the exchequer Gordon Brown's emphasis to be on microeconomic measures, such as the Individual Savings Account, the introduction of a minimum wage and stakeholder pensions that were foreshadowed in his November pre-Budget statement. The key measure may turn out to be the Introduction of a 10 per cent starting rate of tax, aimed at increasing financial gains for the low paid and encouraging the unemployed back to work - although critics say that reform to the structure of the benefits system would be more effective Although much of the shape of the Budget is known, and expected to be broadly neutral, one or two surprises are likely. A spare £2bri may be available, with the

National Health Service leading a pack of deserving causes. For City economists, the Budget might be overshadowed by the latest inflation figures and government borrowing figures, published the morning of Budget day, while unemployment and retail spending data follow on Wednesday.

### FT Surveys

### Holidays

Bangladesh, ireland.

#### **WEDNESDAY 18**

#### View of Asia

The United Nations Conference on Trade and Development and the International Chamber of Commerce release in Geneva the results of a joint survey of the foreign investment plans of some 500 multinational companies in the wake of the financial crisis in east and south-east Asia. The chief executive of ABB, the Swiss-Swedish power engineering group, said recently that ABB was continuing to expand in the Asian region which he believed would bounce back in the next two to three years "and resume growth even faster than before".

### Annan in mideast

United Nations secretary-general Kofi Annan will visit five Middle East countries and the Palestinian territories from March 18 to 26. The trip was scheduled for last month but was postponed because of the Gulf crisis when Annan carried out a peace mission to Baghdad.

#### Commission plans

The European Commission unveils a controversial blueprint for reform of the European Union's regional aid arrangements and common agricultural policy which together account for the vast bulk of the EU budget. The regional aid reforms will concentrate funds on fewer areas while changes to the CAP will cut guaranteed prices for products while providing farmers with compensatory payments. Both proposed reforms have to be approved by the EU's 15 member states and are likely to take at least a year to

#### FRIDAY 20

#### Partners in crime

6.9%

Y690bri

DM12.3bn

DM7.6bn

99.3

3.9

0.2%

10,1%

£3,4bn

Unch

0.2%

-\$10.8bn

\$80.0bn

\$90.8bn

12,8

0.9%

2.7%

\$25.4bn

-L4.4tn

3.1%

4.5%

6.3%

Statistics, Standard & Poor's MMS

EU justice and interior ministers meet to continue efforts to co-ordinate policies In the fields of crime, immigration and asylum Items on the agenda include a controversia



scheme to fingerprint all those seeking asylum in any EU member state. There will also be a debate on organised crime and a review of action taken so far to deal with the influx of migrants from Iraq and neighbouring regions to the EU. Ministers also have to decide to what extent they will open their decision-making process to public scrutiny, in an on-going debate about openness and transparency.

### Blair meets Kohl

Tony Blair meets Helmut Kohi, the German Chancellor, in Bonn for talks that will centre on European affairs. Since his election Mr Kohi has sought to cultivate a close relationship with the UK's Labour prime minister - and the chancellor will be looking for UK support as crucial decisions are taken in coming months over the planned European single currency.

### Trade on the net

The Geneva-based World Trade Organisation publishes a study on electronic commerce which examines the potential trade gains from the growth of commercial transactions on the internet. Electronic trade, about \$8bn (£4.7bn) last year, could top \$300bn by 2002, according to one US study. The US has asked WTO members to formalise the current practice of not imposing customs duties on goods and services supplied electronically but work has only just begun on the implications of internet trade more generally for government policy and WTO rules.

### Holiday

### SATURDAY 21

### Saintly task

Pope John Paul II pays his second visit to Nigeria to beautify Father Cyprien Tansi, who died in 1964 and is the first Nigerian to reach the last stage before sainthood.

4

#### Holiday

Mexico, Azerbaljan, Iran, Japan, Kazakhstan, Kyrgyzstan, South Africa, Tunisia, Turkmenistan, Uzbekistan.

#### **SUNDAY 22**

#### Clinton's Africa tour

US president Bill Clinton visits Ghana on the first leg of an African tour, he travels on to Uganda, South Africa, Botswana and Senegal. Clinton is the first US president to tour sub-Saharan Africa since Jimmy Carter went to Nigeria and Liberia in 1978.

### Precious water

World Water Day this year highlights the threat to the world's groundwater reserves from pollution, water mismanagement and ising populations.

### Holidays

Compiled by Roger Beale Fax: 44 171 873 3196

### **ECONOMIC DIARY**

Other economic news			S	tatistics	to be re	leased	this v	veek	
Monday: Confidence among Canadian manufacturers is likely	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast
to have been hit by the weather	Mon	Germany.	Feb wholesale price index*	0.1%	-0.1%	-	UK ·	Feb retail sales**	5.5%
in January. Japanese money supply growth was probably	Mar 16	Canada	Jan manufacturing new orders	-0.5%	-1.7%		Japan	Feb trade bal (customs cleared) not†	Y1.08tn
steady last month.	1 -1 - 1 - 1	Canada	Jan manufacturing shipments* . :	-1.0%	2.0%	Thurs	Germany	Jan trade balance	DM10.3bn
Tuesday: UK retall price		Japan	Feb money supply (M2+CD)**	4.5%	4.3%	Mar 19	Germany	Jan current account	-DM2.0bn
Inflation is expected to have been stable at the government's	7	Japan	Feb broad liquidity**	1 - 2 - 2	3.2%		Germany	Feb Ifo West business climate index	99,3
target rate in February, while	Tues	Japan	Jan Industrial production†		2.9%		Germany	Feb flo West balance format	
the public sector's finances should have moved back into	Mar 17	<del></del>	Jan shipmentst		3.1%		UK	Feb M4*	0.8%
the red. US housing starts		Japan	Feb Tokyo department store sales**		-5.6%	<del></del>	UK	Feb M4**	9.5%
should have posted strong gains in February, while	-	Italy	Q4 final gross domestic product	0.2%	0.6%		UK	Feb M4 lending	.£4.5bn
industrial production was		Italy	Q4 final gross domestic product**	2.8%	2.2%	<del></del>	US	Feb consumer price Index	0.1%
probably weak.	-	UK	Feb retall price Index*	0.4%	-0.3%		us	Feb consumer price Ind ex food/energ	m0 2%
Wednesday: Retail sales in the UK are forecast to have fallen in		UK	Feb retail price index**	3.3%	3.3%	<del>-</del>	us	Jan trade: goods and services	-\$11.5bn
February. UK unemployment	: <del>- ; ;</del>	UK	Feb retail price index ex mortgages**		2.5%		us		
should have dropped too, with	-			<u></u>			<del></del>	Jan goods/services export (bal of pay	<del>`</del>
average earnings growth stable in the preceding month.		UK	Feb public sector borrowing requirem		-£10.4bn	<u>·</u>	ÚS	Jan goods/services import (bal of pay)	<del></del>
Thursday: Core consumer price	. <u>::</u>	US	Feb housing starts	1.55m	1.53m	· .	US	Mar Philadelphia Fed Index	11.8
inflation is forecast to have remained at recent subdued	<u> </u>	US	Feb building permits		1.43m		US	Feb real earnings	
levels last month, while the	<u> </u>	US	Feb Industrial production	Unch	Unch	Fri	Canada	Jan retail sales †*	-1.5%
balance of payments deficit		us	Feb capacity utilisation	82.8%	83.0%	Mar 20	US ·	Feb Treasury budget	-\$40.0bn
should have fallen below \$10bn (£6.3bn) in January. The		Canada ·	Jan wage settlement increase"	1.75%	1.7%	During t	he week	•	
Bundesbank council is unlikely		US	Redbook March 14		-1,9%	-	Italy	Feb balance of payments	-
to move interest rates. Friday: German money supply	Weds	italy .	Jen industrial production** not†	7.5%	8.1%	<del></del>	Germany	Feb M3 from Q4 97 base	3.5%
growth is thought to have	Mar 18	UK	Feb unemployment	-17.8k	-12k		Germany	Feb M3 from Q4 96 base	4.6%
accelerated in February.		UK	Jan average earnings	4.75%	4.75%		Germany	Feb private lending 6 month, annually	6.3%
Meanwhile bank lending is likely	·——		<del></del>						

1 Getting a share of the busi-

stimulated by low interest rates.

ness (12)
10 Talk of a college census (7)
11 Leaders of New Zealand
and Australia follow revo-

lutionary passage (7)
12 A handy cover (5)
13 Second international is embraced by alien seeking to get away (8) 15 Violation in one quarter,

say (10) 16 Cannabis, heroin, ecstasy one wanting to legislate (4) 18 Skin cover up (4) 20 Difficult relations about

American in one part of

Congress (10)
22 Dies away after being close
by the kerb (8)
24 Criticise a society engulfed
in rubbish (5) 26 The Number One book comes over with real feel-

ing (7)

27 Alice for example is too unset for mourning (7)

28 Work quietly on broken leg, in danger from ghostly companion (12)

DOWN

Jan unit wages 3 month

UK

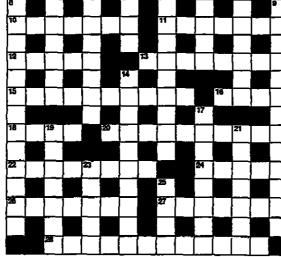
2 Castigate for moment of primal fear (4,3) 3 Main road (8) 4 Black tie? A problem? Get

your teeth into it (4)
5 Can social change incorporate love from time to time? (10)
6 Help Ulster to rise to be a democratic state (5) democratic state (5)
7 Real information leads uni-

versity into new experi-ments (7) 8 One who hopes to make a 8 One who hopes to make a good deal (7,5)
9 it's policy to change after role in Lib-Lab machinations, for example (5,8)
14 The races finish in an ace formation for those present (10)

(10)17 A number mistake route through marshy ground (8) 19 Did include moan about the

suit (7)
Fancy removing all the letters from one Economist, for example (7) 23 Leave work to slide down-hill over later hours (5) 25 Pray about king on high ground (4)



3.9%

Winner of Puzzle No.9,620: Joyce Radberg, London W2.

#### **MONDAY PRIZE CROSSWORD** No.9,632 Set by ADAMANT

A magnum of Laurent Perrier Rosé champagne for the first correct solution opened. This prize is available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a stainless steel PT desk clock. Solutions by Thursday March 26, marked Monday Crossword 9.632 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 30. Please allow 28 days for delivery of prizes.

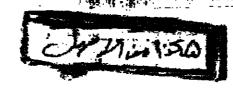
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Solution 9,620

Germany Feb toon consumer climate

**JOTTER PAD** 

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## **PHARMACEUTICALS**

The spate of mergers and acquisitions in the industry reflects weakness rather than strength and, predicts Daniel Green, the dealmaking is likely to continue

# Uniting against a sea of troubles

To merge or not to merge. That is the question pharmaceuticals industry executives are asking themselves. On can last a long time. the one hand they could suftogether. On the other, they might have to slug it out alone in a world where competitors move fast and customers are powerful. ...

been on board meeting agen- shareholder value.

aborted in January - says its aged sales and morale, board of directors maintains a list of potential merger extreme example of what partners. Once a year it pulls out the list and debates

A senior executive from a rival company, upon hearing AT Kearney, the US manage this, expressed surprise that this happened only once a companies which took part

ers and acquisitions over the had lower economic returns" past five years demonstrates than those that did not. how enthusiastic companies are about getting together. Yet everyone, in every industry, knows that mergers are heli.

"For any executive conducting a merger, it means if they had not merged. saying goodbye to spare time at evenings and weekends, all for, possibly, a small pay pharmaceuticals company

There are salutary exam- had failed to find a replaceples in the pharmaceuticals ment for its ageing star prodbusiness of how merger hell

Swedish company Pharm- position, with great antibiotter the morale-damaging acia and its US rival Upjohn ics but little else. Within uncertainties of bringing merged in late 1996. Since months of their merger, two separate businesses then, the company has had a merged in late 1996. Since months of their merger, then, the company has had a series of profits warnings, announced 5,000 job cuts. lost a chief executive and, if its employees are to be believed, provided an object lesson in how cultural differ- difficulties. The merger question has ences can destroy jobs and

New chief executive Fred One former executive with Hassan has changed his US company American entire board of directors bar Home Products - whose one, moved headquarters merger talks with the UK's from London to the US and SmithKline Beecham were is still wrestling with dam-

Pharmacia & Upjohn is an can go wrong after a merger but, according to the work of Henri Meler, chief financial some management consultants, the evidence that any matically when asked mergers do good is scanty. ment consultancy, says that in the \$100bn-plus mergers The \$200bn-plus of phar- and acquisitions spree of the maceuticals industry merg- past decade "have generally

> So why do they do it? The answer can be summed up in the regular response to research such as AT Kearney's: those companies would have done even worse

Just about every large merger or acquisition in the pharmaceuticals industry has been driven by the need to solve problems.

In 1989, SmithKline Beck-

diseases. Our agribusiness, Hoechst Schering AgrEvo, is ensuring nutrition for the world's growing population through integrated

uct, ulcer drug Tagamet. Beecham was in a similar The following year, profits rose 19 per cent in spite of the unmerged companies'

Similar stories are told by the mergers of the likes of American Home Products and American Cyanamid in 1994, Glaxo and Wellcome in 1994, Roche and Syntex in 1994, and more.

While most senior executives at the companies involved insist that these were all good deals, cracks can sometimes be found. officer at Roche, smiles enigwhether the \$5.3bn spent on Syntex would not have produced better returns as part of Roche's cash pile.

Sometimes problems are acknowledged more openly. US company Eli Lilly last summer took a \$2.4bn charge to reflect the fall in value of PCS, a drug distributor it bought in 1994 for \$4bn.

But the norm is to keep quiet: SmithKline has not made a write down on DPS, the distributor it bought for \$2.3bn also in 1994, even though, four years later, it is still making losses.

ing that some of the companies involved in making the big deals happen, return to man's huge research effort the theme repeatedly. Smith-



Kline and AHP were in merger talks in January and have in common with each Glaxo and SmithKline in other and with others that February. And, in May 1997, have avoided playing the Roche paid \$11bn for Germergers and acquisitions man diagnostics company

Boehringer Mannheim. Two that have not are Eli Lilly and Merck, which made a \$6bn acquisition of a dis-So it should not be surpris- tributor in 1993, firing the starting pistol on the drugs industry mergers and acquisitions spree, but has not What do these companies

The answer is rapid growth generated by new products.

For Lilly it has been Prozac, the anti-depressant, and Zyprexa, for schizophrenia. Merck is the world leader in the biggest medical area,

Other companies that have mergers are declaring to the eschewed mergers and acquisitions have also had fast growing products.

Pfizer, for example, has three products with sales beating \$1bn a year and another - Viagra - that could be launched this year. Viagra, for male impotence, has been tipped by some

analysts as a future world's number one best seller. this month about the possi-All of this suggests that bility of Glaxo merging with number one best seller.

slash-and-burn cost-cutting. But in their position I would

do the same."

To that extent, mergers and acquisitions seem inevitable. R&D cannot guarantee to produce new products; an unlucky streak can leave a company without the goods to make up for an older product losing patent protec-

So, if such dealmaking is inevitable, what is the best way to do it?

A survey of pharmaceuticals industry executives that have been through the merger process produced a, perhaps, surprising result. The most important success factor, said the executives, was "creating a new com-pany". It came in ahead of realising cost and sales synergies", "managing people" and "focusing the portfolio".

This lesson is strikingly seen in the relative fortunes of the two big mergers of 1996. Swiss companies Ciba and Sandoz agreed a friendly merger to form Novartis. Ciba management, in particular, had memories of the years following the 1970s merger of Ciba and Geigy when employees still identified with one of those two names rather than the new company. Today, Novartis is one of the more successful merged companies.

Contrast that with Pharmacia & Upjohn, where language and geography conmaintenance of the two company cultures. If Glaxo and SmithKline ever do merge, it will be interesting to see if they choose to sweep away the old names.

Many of those involved in successful mergers think the best way of proceeding is to destroy the old to build the new. Dan Vasella, Novartis world that they have probchief executive, puts the case compellingly: "People lems that can only be must look to the future, not addressed in this drastic the past."

Dealmaking will continue make the merger a bad in the pharmaceuticals industry as long as R&D is unpredictable. That means that the dismantling and As one chief executive of a reconstruction of companies will continue too. When merger-shy company said senior executives want continuous growth, there seems companies announcing SmithKline: "It would be little alternative.

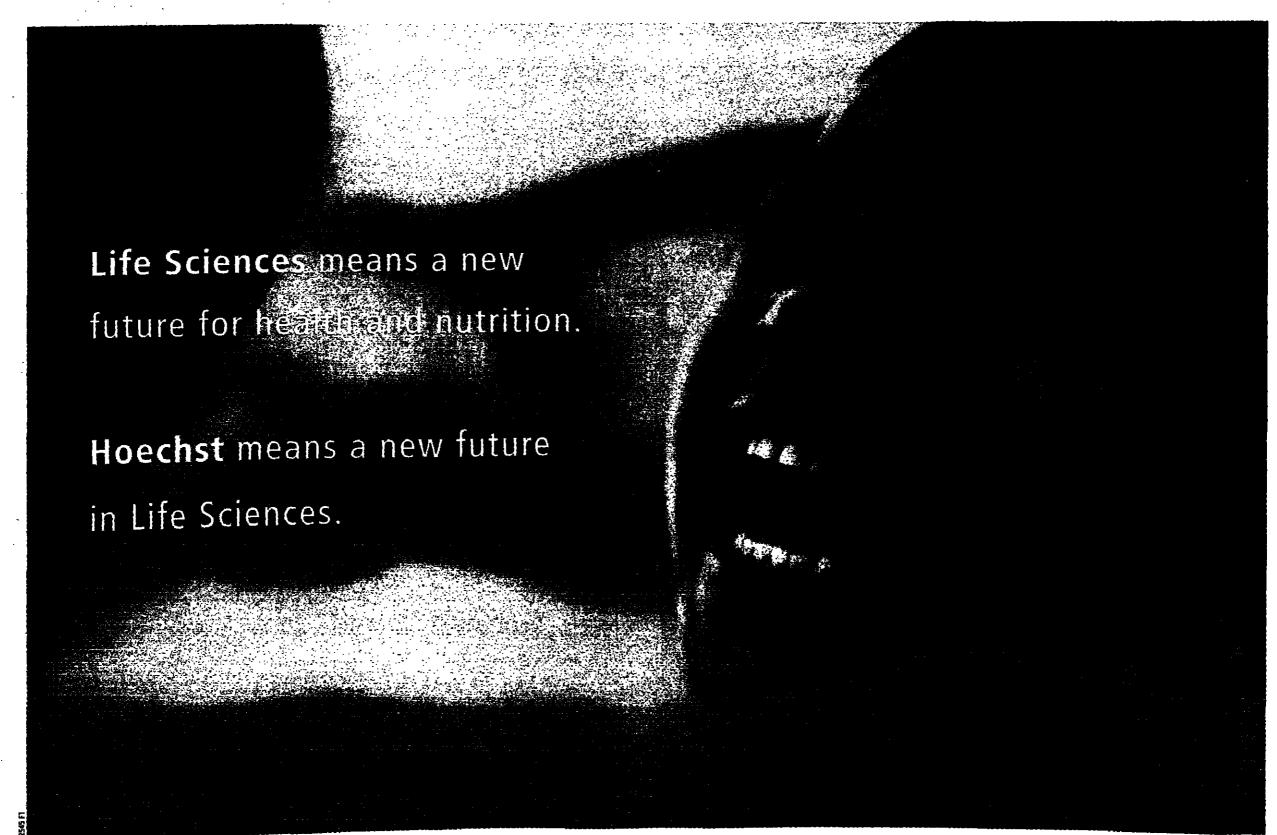
made any foray since then.

The Future in Lite Sciences

That does not necessarily

move; it might be the best

thing to do under the cir-



**HEALTH ECONOMICS** • by Simon Eckett

# Balancing more for less

Higher drug costs often translate into lower overall healthcare costs

Pharmaceutical companies are growing at an unprecedented rate. In the 1996/97 financial year Merck grew by 19 per cent; Pfizer by 16 per cent; Astra by 16 per cent and SmithKline Beecham by 10 per cent. The US continues to dominate world markets with 15 per cent growth in value terms to September, 1997.

Such growth is astonishing. Yet, it was only five years ago that a more demanding breed of purchasers - private managed care organisations in the US and public purchasing bodies across Europe - keen to drive down prices and volumes through the use of "evidence-based medicine" and formularies, appeared likely to threaten the success of the industry.

There was even talk of an additional hurdle, subsequently introduced in Can-ada and Australia, obliging pharmaceutical companies to produce economic data before receiving reimburse-

Many executives felt health economics posed the greatest threat to growth



Drug solution: medicines enabling treatment outside hospital are cost-effective

That threat appears to research shows that outhave receded. In part, this is due to the purchasers themselves, who have found that pharmaceutical products can be more cost effective than other more capital or peopleintensive interventions.

France's health secretary conceded last month that innovative pharmaceutical products can save money in other parts of the health care system such as hospitals. In Germany, new

patient spending on medicine is growing significantly as the country's statutory health insurers shift patient care, particularly chemotherapy and dialysis, out of hospitals. In the US, the managed care organisations themselves appear to be driving the market's recent

Such a shift in purchasers' perceptions could not have

vative drugs for complex diseases that previously required in-patient hospital treatment.

 the production of relevant and persuasive economic evi-

The Canadian Co-ordinating Office for Health Technology Assessment recently demonstrated that Clozapine, a treatment for schizophrenia developed by Novartis, could save the Canadian

healthcare system C\$389m in annual direct costs, mainly due to reduced hospitalisation, compared to increased drug expenditure of C\$63m.

Central Nervous System (CNS), a therapeutic sector which includes schizophrenia, depression and Alzheimer diseases, is the fastest growing segment in the US market. Combination therapy with Retrovir and Epivir, plus a protease inhibitor, can reduce the Aids virus to undetectable levels

in some patients. According to Glaxo Wellcome, the annual cost of combination therapy ranges from \$10,000 to \$16,000 while the cost of treating Aids in a hospital in the US is estimated at \$100,000 per year.

For purchasers such expenditure and investment ward. Often cost savings are not directly related to the purchaser themselves. A product may reduce time off work or hospitalisation, but increase drug costs for which a particular pur-chaser, for example a GP with a limited budget, is directly responsible.

A new innovative drug may be more expensive than a "cheaper" alternative, yet reduce comparative hospitalisation rates and other costs. That will make it more cost effective, but have an adverse impact on a purchaser's drug budget.

STRATEGY • by Daniel Green

iggest markets, 1996 Market share (Per cent) Estimated sales" (USSbn) Grazi Camada outh Korta

Alternatively, costs are so entrenched in the healthcare system that they cannot be reduced despite the existence of a cost effective alternative. Some pharmaceutical companies work directly with purchasers and providers to re-engineer the delivery of healthcare services decisions are not straightfor- and gain the full value of a

drug's intervention. A "value in use" study saw a pharmaceutical company work with hospitals and GPs to introduce a cost effective domiciliary care service for cancer patients. Drug costs increased, but expensive hospitalisation was reduced.

Such work is data intensive. Pharmaceutical companies are re-aligning their global health economics departments with their clinical and marketing efforts to ensure they capture and disseminate all the relevant

Glaxo Wellcome has combined its R&D and marketing global health economic teams into a single entity that reports to the research and development side of the business. According to Dr Francois Schubert, Glaxo Wellcome's Worldwide Director of Health Outcomes.

"Our work load has increased significantly over the last few years. In addition to producing increased economic and quality of life data for decision-makers and purchasers around the world, we are involved in product investment decisions from discovery right through to Phase IV trials. That requires a fully co-ordinated team with global

reach and impact." Health economics has encouraged pharmaceutical companies to focus their research efforts on innovative cost effective treatments and helped purchasers to

refine their understanding of

increased drug budgets. Over the past five years purchasers have challenged pharmaceutical companies to deliver cost effective products for treating their most complex and chronic diseases, such as schizophrenia, cancer and asthma.

Pharmaceutical companies that have responded to the challenge are now reaping the rewards of higher sales and profitability.

The challenge is a tough and a constant one. In many European markets, where pharmaceutical growth rates are not as high as in the US. public purchasers have yet to be persuaded that higher drug costs translate into lower overall healthcare costs. Given their traditional scepticism they will take some convincing.

Simon Eckett is a consultant at Deloitte Consulting|Braxton Associates

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whether to go for big and efficient or small and innovative

There are few issues likely to set pharmaceuticals industry executives arguing more than that of whether higger companies are more efficient than smaller ones.

The question goes to the heart of whether the series of mergers and acquisitions that has dominated the industry's strategic thinking since 1993, addresses shareholders' demands for higher growth.

The pro-big company argument is articulated every time there is a large merger or acquisition. When Smith-Kline and Glaxo, for example, were in merger talks last month, they said each company's strengths made up for the other's weaknesses in research and development.

Specifically, Glazo is strong in automated chemistry (which more usually goes by the technical name of combinatorial chemistry) in which thousands of different molecules can be prepared in

SmithKline is strong in the genetic research that has thrown up too many avenues of research for it to follow. Bringing the two together might have made it possible to test Glaxo's molecules against SmithKline's

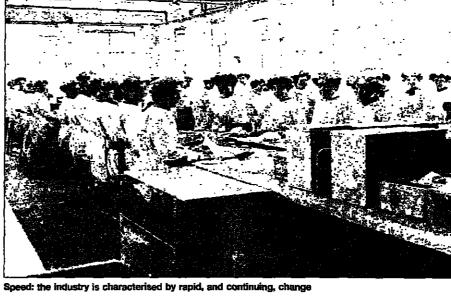
Other mergers, such as that between Swiss compa-nies Ciba and Sandoz to form Novartis, argue for complementarity in product lines, rather than R&D.

In all cases, of course, there are cost savings to be made through workforce cuts and plant closures. These lead to some of the most persuasive arguments in favour of scale, the ability to secure a given level of sales with lower costs.

more quietly. Proponents often has two plants per have included chief executives, notably SmithKline Beecham's Jan Leschly, stock market analysts and management consultants.

The argument, most obviously in a version published by Andersen Consulting in October 1997, runs as follows: to keep pace with the average industry growth rate of 10 per cent a year, the top 10 companies will each have to launch five important new drugs a year, with each reaching annual sales of \$350m. But, between 1990 and 1994, companies in the industry launched an average of only 0.45 new drugs a year, as opposed to improved versions of existing drugs. And only 8 per cent of products launched reached sales of \$350m.

Even mid-sized companies will have to launch three new drugs a year to grow at industry average rates, says the management consultants, so the question is whether these large companies can generate the productivity to match their



The case was put more pithily by Sir David Barnes. chief executive of UK drugs company Zeneca, at his company's annual results pre-

He was discussing the challenges that would face Glaxo Wellcome and Smith-Kline Beecham, Zeneca's two larger UK rivals, if they

"Over the last few years drugs at a rate, on average, of more than one a year. If those two companies merged, they would be four or five times larger than that. Consider how many drugs they would have to launch a year to grow at our

Sir David struck at the heart of the size/efficiency debate. Few argue with the idea that larger companies can manufacture more efficiently. This is especially true of the pharmaceuticals sector where there has been political pressure to manufacture in the countries where drugs are sold. Siting a plant helps smooth the path towards approving a The anti-merger argument high drug price. But, after a has been articulated rather merger, the new company

> country and one is usually Nor, of course, is there debate about the benefits of having only one headquarters operation instead of two. And sales forces have to be large enough to cover all doctors in a given territory, with each sales executive selling a range of products.

Experience suggests that these overlaps can be cut to boost profits growth for one or two years. What happens after that depends on whether doubling the size of the research and development operation more than doubles its output.

It is a difficult change to measure but there is evidence to suggest that beyond a certain size, R&D comes less efficient. Management consultancy

Gemini Consulting calculates that adding an extra dollar of spending gives the biggest incremental increase in output with budgets of between \$400m and \$900m a year. In people terms, increasing headcount once the 60,000 employee mark is reached is progressively less

ellective. There is also counter evidence from the biotechnology sector, where companies typically consist of a few hundred (at most) employees, the majority in research and development. The US biotechnology industry association claims that the typi-

cal cost of drug development in the sector is little more we have been launching than \$100m. This compares with the \$200m to \$800m range usually attached to drug discovery and development in the mainstream pharmaceuticals sector. Eran Broshy and Gayatri Sindhi, at Boston Consulting

management consultants in New York, have identified several ways by which companies can try to boost their research and development productivity without having "Critical mass and scale

are shrinking, with barriers to entry coming down through outsourcing," says Mr Broshy. "Scale is becoming less of an issue," He points to the rapidly

increasing use by pharma-

ceuticals companies of biotechnology company partners as a means of outsourcing research and so-called contract research organisations which actually carry out clinical trials, the D in Enjoy

生化

They also point to regulatory harmonisation, which is being pursued by health regulators in Europe, the US and Japan, as a means of cutting red tape, and to new developments in the conduct of clinical trials to increase the chance of their success through better pre-selection of patients.

They note "resistance" by drugs companies to this last item: they fear that narrower groups of patients will result in smaller markets for each drug.

The question that is much more difficult to answer is whether this kind of approach will boost R&D enough to persuade chief executives bent on mergers to change their minds. It is a question that cannot be answered in any laboratory, only in the real world of business.

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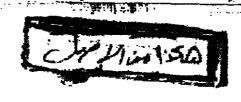
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EMERGING MARKETS • by Jeff Devlin and Paul Hemsley

# Development demands equal treatment

Neglect is being replaced by targeted research and assessment of specific needs

For most large drugs companies, the traditional approach towards emerging markets has been to launch existing, often old, products originally developed for mature economies. Until recently, few have tried to analyse the medical or economic needs in emerging markets. Nor has there been much research and development directed towards the development of products to meet these needs.

This apparent lack of interest has been strongly mature economies. But, size influenced by competition and rate of growth are not, policies which have appeared to be unfavourable to multinational pharmaceutical companies. These have included price controls, generic competition, the lack of intellectual property protection and restrictions on 100 per cent foreign ownermajor problems to drugs companies in Asia Pacific and Latin America.

Furthermore, emerging markets have tended to have low healthcare spending tries' standards by 2000/2006. compared with mature marpared with about 12 per cent

However, that is no longer

rates in some emerging markets outstrip those in developed ones.

Over the past five years, the European and North American markets' average annual growth rates have been 6 and 7 per cent respectively. Competition has become more intense, and some governments have introduced measures to control spending on drugs.

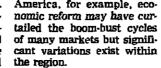
At the same time, the sheer size of some of the emerging markets and their potential for growth mean they can no longer be neglected.

Regions such as Latin America have grown at an estimated 15 per cent a year over the past five years. This is dramatic compared with in themselves, attractive enough if the trading environment is hostile.

Now, however, the trading environment may be improving. Patent protection has been improved for World Trade Organisation members under the General Agreement on Tariffs and Trade (Gatt)/Trade Related to be dragging their feet Intellectual Property Rights (Trips). This makes their islation. patent legislation comparable with developed coun-

In addition, some counkets. In India, 1 per cent of tries, such as India, have libgross domestic product is eralised equity controls and spent on healthcare, com- procedures to encourage competition and inward the region. in the US and 6 per cent in investment in high tech

In spite of this, countries such an obstacle as growth such as India are perceived



among member countries.

population of more than 1.2bn and in excess of 65.000 hospitals, might appear to offer widespread opportunities for pharmaceutical companies. In reality, most companies will only be able to access small sections of this huge market. In the next century, the Chinese phar-



mies must work with developing countries, such as India and Brazil, to have an impact in emerging m

increasing affluence among

some urban populations,

around 20m of the total Chi-

Indeed, demands from the

lations of most emerging solutions for the target dis-

affluent section of the popu-

markets will be a key influ-

ence on how those markets

develop with annual growth

forecast in excess of 15 per

cent over the next five years.

A number of companies,

nese population.

maceutical market could have recognised the potenbecome one of the largest in tial and established joint with early enactment of legthe world, but this growth Not all markets are will be largely driven by

equally attractive. In Latin America, for example, economic reform may have cur-

The Mercosur trade pact, consisting of Brazil, Argentina, Paraguay and Uruguay, with free trade deals agreed with Chile and Bolivia, has served to encourage differential foreign investment and will further stimulate trade

Similarly, China, with a

acquire the appropriate port-

folio. Glaxo Wellcome's

adoption of a regional man-

The company is devolving

operating companies. Gen-

This frees domestic capacity for ingredients needed for the rapid introduction of new products. Emerging markets repre-

appear to provide significant

opportunities for increasing

sales, from a manufacturing perspective they also provide

important sources of lower

Roger Price, formerly

Director of International

Purchasing and Contracts at

Glaxo Wellcome, says: "The

impetus for seeking good

quality, reliable suppliers of

low cost materials from Asia

has been a response to pres-

sures on profit margins

faced by both generic and

In addition, it must be

recognised that some phar-

maceutical companies, in

both the USA and Europe,

are outsourcing production

to approved suppliers in

emerging territories.

cal companies."

cost raw materials.

sent significant opportunities for multinational pharmaceutical companies but if they adopt a one-strategyfits-all approach the chances the dis- organisations; or through of failure are high. ease/product targets most in corporate or regional merg-

Smart companies will need to adopt regional and local demand in these markets ers and acquisition to strategies which balance risk and return without unnecessarily exposing the anti-infectives/antibiotics agement style and structure parent company. Such strategies need to be developed and implemented in the long-term in the spirit of more responsibility and partnership with local governments, regulatory authorchannels of distribution. Jeff Devlin is a partner and Paul Hemsley is a managing consultant in Ernst &

aiming a proportion of R&D ered and encouraged by the centre to develop businesses which better suit the needs Young's Global Life Sciences

**INVESTMENT BANKING •** by Dan Bogler

### Enjoying a sector in rude health

Banks envisage returns from specialist care for healthcare and pharmaceuticals

"Healthcare is hot," says Bob Bradway, head of Morgan "Stanley's healthcare group in Europe, "and the infra-red detector is still dominated by pharmaceuti-

Take a look at the numhers and it is hard to disagree. Even ignoring what might have been - the £115bn merger between Glaxo Wellcome and Smith-Kline Beecham - there have been £64bn of takeovers and mergers in pharmaceuticals alone in the past three years. Add in the deals, flotations and financings in biotechnology, healthcare services and medical technology, and the number doubles.

In response, most investment banks worth their salt have set up or beefed up their presence in healthcare. Morgan Stanley, the clear leader in this sector, was also the first out of the starting blocks: it set up a separate healthcare department as early as 1983.

"By then it was clear that fundamental changes were sweeping the industry," says Mr Bradway, "such as the emergence of a public biotechnology sector in the US and the introduction of forprofit healthcare providers. We wanted to create a group of bankers that would stay abreast of these issues and be able to talk to managements on strategic issues."

Today, Morgan Stanley's global healthcare group numbers 50, including research analysts, and has advised on eight out of the 10 largest pharmaceutical

field to itself. Goldman even though many of the Sachs, which started its world's biggest drug compahealthcare team in 1968, has nies are actually European. expanded it twice since and, A good example is the crein June 1996, boosted it to atton of Novartis in 1996. the level of a free-standing where Morgan Stanley department - on a par with advised Sandoz and Ciba's the bank's financial institu- lead adviser was J.P. Mortions and utilities practices. gan, backed up by UBS. Art Reimers, co-head of the

has built up a 60-strong creating well-rounded bank-group since 1991, covering ers, who can negotiate and pharmaceuticals, biotechnology and services such as hospital groups and health maintenance organisations.

Deal volume, however, has not been the only reason for ships. But Lazard's presence the creation of such large in this sector is heavily teams of specialists. Healthcare, unlike any other industry is not driven only by rapid change - like, say, computing - but also by the way it is governed - like

"This is a regulated indus-try," says David Deming, cohead of J.P. Morgan's global healthcare practice. "And you must understand that country by country, because that is what drives value."

Public deals more than \$100m

Transaction	voleces Site
Morgan Stanley	199/
JP Morgan	65.
Goldman Sachs	
Mentil Lynch	52.5
UBS	35.0
CSFB	33.
Lehman Brothers	27.5
Salomon Smith Barney	26-
Lezard Houses	28.
ANG Baring	18.

On top of that, just keeping up with the science is a challenge. According to Mr Reimers: "There is probably a scientific event that is significant to the industry occurring every day. That does not happen if you are making gaskets."

Lastly, of course, a look at the record (see table) shows that this sectoral approach is bine to cut costs and gain paying off handsomely, critical mass. When it comes to strategic advice and the big deals. managements turn time and again to half a dozen top names - led by the Ameri-But it no longer has the can bulge bracket firms,

healthcare department still exists, of course, such as setback for the companies, worldwide, leads a group of the generalists at the Lazard their advisers and the indus-50 bankers centred in New Houses or ING Barings. Mar-York, London and across cus Agius, vice-chairman of healthcare bankers will not Lazard Brothers in London, be short of work.

Meanwhile, J.P. Morgan, stresses the importance of execute a deal irrespective of what industry is concerned. And that approach will continue to work where there are strong client relationdone for Glaxo in the UK. And when Glaxo bid for Baring's main client Wellcome in 1995, the latter hired Morgan Stanley as well, while Goldman Sachs has quietly worked on a defence strategy for Zeneca, another UK

drug company. So what do the specialists predict for the future? Consolidation will continue. On that, everyone is agreed. Even Glavo SmithKline would have had only 7 per cent of the world drug market. And, whereas the first round of mergers in the mid-1990s was driven by a need to secure global distribution networks, according to Mr Deming, the next wave will come as a result of fundamental changes in research technologies, which are raising the productivity but also the costs of R&D.

And most of those deals will continue to be in the form of friendly, all-share mergers inside a single market. According to Mr Reimers, launching a cash bid is just too expensive given the vast size of the big pharma companies, while stock deals are very difficult to pull off across borders.

Moreover, biotechnology and healthcare service companies are also under increasing pressure to com-

But there are other trends as well. Mr Bradway points to the emergence of a European biotechnology sector and a rapid increase in outsourcing by big pharma to specialists, such as Quintiles, a contract research organisation. As these sectors grow, they will require investment banking services, from help with going public to advice on strategy, acquisitions and alliances.

The failure of Glaxo and An alternative approach Smithkline to merge was a



Moreover.

can be very different from

the more developed coun-

tries: the relative sales of

higher in emerging markets.

their product portfolios.

Companies looking to

This may be achieved by

spending to meet the specific

tend to be significantly is a prime example.

exploit opportunities in accountability for develop-

emerging markets may ing local businesses to the

therefore have to realign regions and the individual

ventures in China recently.

been developed primarily for

Western markets will not be

suitable for emerging territo-

ries because they cost too

In developed markets,

ease have tended to focus on

the delivery of high value/

innovative products. For

emerging markets, more appropriate solutions might

include low priced/high vol-

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The second secon

JAPAN • by Martin Reeves

# stemming the bleeding

Japan is waking up to healthcare cost containment but remains an attractive market

Japan's pharmaceutical roughly 20 per cent of world demand. Until recently it has provided a favourable environment for Japanese and foreign players alike. However, changes in the bealthcare system and the economy will make life more difficult for smaller companies and could trigger a wave of mergers and acquisi-

Healthcare cost containment has come to Japan,perhaps, last among all develto doctors and hospitals or the use of drugs.

The drug pricing and reimbursement system has had a profound impact on the Japanese market and the indus-

New drug prices are determined by comparison with existing drugs. The price was allowed to increase up to a threshold, with the differences in excess of this so-called "r zone" triggering biannual revisions in the official price.

This created a powerful incentive for over-prescription, with yakkasa (the difference between official and market prices) being an important source of income for doctors. Indeed, in 1996 yakkasa amounted to 1.2 trillion yen or, roughly, 5m yen for every doctor in Japan.

Compared with other large and established markets. prices have been both relatively high and also undifferentiated between highly innovative compounds and mere incremental improvements in the quality of a drug.

As a result, Japan has been able to support a large population of relatively small pharmaceutical com panies, including around 100 which claim to be research-

steadily, Japanese manufacturers have been able to increase their profitability. Foreign companies have also done reasonably well. Comnared with other sectors of the economy, pharmaceuticals has been relatively open market is the second largest and foreign companies have after the US, accounting for a 26 per cent share of the market directly and around 40 per cent if drugs licensed

> into account. The environment that has allowed this is changing in three ways: slower economic growth, a rapidly ageing population and the international harmonisation of technical regulations.

to local companies are taken

The fastest ageing population among developed countries and a declining working age population have oped economies. Until driven the health insurance recently, few restrictions system into deficit and have precipitated a belated but intense focus on cost con-

Some measures have already been introduced. Patient co-payments (where

cost of their treatment) have been increased to a uniform 20 per cent.

As in other countries, the government has focused on containing cost with the pharmaceutical industry as the main target. Price revisions are made annually and the "r zone" has been reduced from 15 per cent in 1992 to 10 per cent, with a being applied to long-listed drugs and a proposal to reduce these further to 5 per cent and 2 per cent respec-

tively. applied in setting the prices of drugs which are judged

not to be innovative. A "flat sum" was introduced on a voluntary basis for elderly in-patient care, capping the total daily cost per patient. More controversial has been the adjustment of prices of drugs which have significantly exceeded their sales forecasts or bad usage extended beyond initial indications, such as terol-lowering agent Mevalo-

Of more concern, are two measures which are slated for introduction around 2000. One is the extension of the flat sum system to all chronic diseases, which is likely to result in markedly reduced consumption of nonessential drugs, lower market prices and the substitusmaller zone of 8 per cent tion of lower-priced products, including generics.

The other is the introduc-

tion of reference pricing. broadly modelled on the German system in which drugs A discount is effectively are paid for by the government at a single price for each medical application. This would also reduce consumption significantly by eliminating the economic incentive to overprescribe and depress the prices of leading brands.

Precedents in both Germany and Japan suggest that the impact will vary greatly, with companies focused on simple infusions or antibiotics, or those with

As the market has grown patients contribute to the Sankyo's high selling choles relatively undifferentiated products, being hit most

The second major driver of change is the international harmonisation of technical regulations. More stringent procedures for pharmaceuticals companies and clinical investigators for clinical traals were implemented in April, 1997.

Written informed consent pulsory for all clinical trials. This will mean higher costs. fewer participating sites. lower patient recruitment rates and longer development time scales. The imminent abolition of the regulation requiring that clinical trials be performed in Japan on Japanese subjects will open the possibility of using international trials data.

Japan seems vulnerable to these changes with only two companies. Takeda and It is likely that the Sankyo, in the top 20 companies globally and only two large companies. Yamanouchi and Fujisawa, with sales of more than 20 per cent

Sankvo. Fujisawa and Yamanouchi, have acquired small companies in Europe and in the US but they have heen relatively unsuccessful in using them to boost their penetration of foreign mar-

While the new drug output of the Japanese industry has increased dramatically, such that it now accounts for from volunteers is now com- around one third of new compounds globally, the proportion of these which are therapeutically novel is significantly lower than major competitor countries.

Analysis of the relationship between stock market, operational performance and scale in Japan shows that the minimum efficient scale in both R&D and sales is already somewhere near \$1bn sales, corresponding to

It is likely that the Japanese industry will see significant restructuring and consolidation in the next few years, including the possibility of large inward acquisi-

While the market environment may be deteriorating. Japan is still regarded by many foreign companies as a large and profitable market in which they remain underrepresented.

Significantly, 10 international companies have dissolved joint ventures with Japanese pharmaceutical companies since 1990, and have built their own sales and development organisa-

A number of changes are creating a more favourable environment.

First, anticipated environmental changes will hit some Japanese companies hard with some already showing significant deterioration in stock market and operational performance.

Second. asset prices have fallen with pharmaceutical shares some 25 per cent below 1989 levels.

Third, the stable crossshareholdings between companies which have hitherto protected Japanese companies from acquisition have begun to unravel, as insurance companies and banks

Over dose: changes will reduce over-prescription

are forced to question the have already implemented low-dividend yields on these substantial investments and address their own deteriorating financial positions.

Fourth, a minority of industry leaders have begun to seriously consider alliances with international companies.

Finally, the feasibility of drastic restructuring will increase if the current economic recession is prolonged. The collapse of Yamaichi Securities and recent salary reductions and restructuring of management boards by some banks

are already providing powerful precedents. There are several areas where costs will be cut. At 55,000, the number of medical representatives in Japanese pharmaceutical compa-

nies is high by international

restrictions on visits by

. A. 183 10 70

The number of wholesalers is also extremely high at some 280, although this is declining fast through mergers and acquisitions.

Japan will soon see the emergence of clear winners and losers. Losers will include most wholesalers. many of the smaller Japanese pharma companies and foreign companies who fail to move decisively to build local critical mass.

Winners will include leading foreign companies which have already attained critical mass, a few more which may attain it through bold M&A moves, large wholesalers which attain national coverage and rationalise logistical operations, and no more than a handful of the standards. Some hospitals larger Japanese companies.



Drug culture: future generations of Japanese will find prescription drugs more difficult to come by



FINANCIAL TIMES

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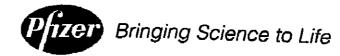
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Working for a Healthier Future



Pfizer is a research-based health care company with global operations.

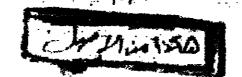
Pfizer Limited, at Sandwich in Kent, employs some 3500 people, most of whom are involved in the research, development and manufacture of medicines for the treatment of disease in humans and animals.











Collaboration with new disciplines is expected to point the way forward.

Success in pharmaceuticals. more than in any other global industry, depends directly on science.

While high technology sectors, such as electronics and aerospace, are also sciencebased, other factors, such as manufacturing and product design, play a more impor-

In pharmaceuticals, a new chemical that offers significantly improved treatment for an important disease is bound to be commercially declining number of new successful, if its developer can demonstrate through clinical trials that it works safely and effectively.

Of course, it has to be made with proper quality control and marketed effectively but these issues tend to be more important for. say, computers than for

Not surprisingly, therefore, drug companies devote R&D director, compared vast resources to research and development. Their R&D spending is, typically, 15 per cent of sales revenues.

The UK-based Centre for Medicines Research International (CMRI) estimates that the global pharmaceutical industry spent \$32.2bn on R&D in 1995 and \$35.4bn in

The rapid increase in R&D spending has not yet been reflected in the flow of drugs reaching the market. Figures from CMRI show that the number of new molecular entities - in other words, genuinely new drugs rather than reformulations of existing products - first launched in 1996 was the lowest for at least a decade (see chart).

buted mainly to a sharp fall Wellcome together before in activity by Japanese com- their merger in 1994.

On the other hand, the CMRI data show an encouraging fall in the time taken to develop new drugs - evidence that the industry's efforts to speed up the R&D process are begining to pay off at last. The average development time from discovery to first marketing was 10.1 years in 1996, the lowest since 1980.

Looking ahead, the industry expects the trend to shorter development times to continue, as a combination of improved management and new technology improves R&D efficiency. At the same time, it is counting on a rapid reversal in the drugs launched.

Large pharmaceutical companies, which have managed to launch drugs at an average rate of about one a year, are now promising two or three innovative products a year. Glaxo Wellcome of the UK put 18 new chemical entitles into the first 'exploratory' stage of development in 1997, says James Niedel, together to cause disease.

At the same time as they

streamline their in-house R&D operations, large companies are extending their network of alliances with the biotechnology companies that could give them a decisive scientific edge in a par-ticular field. And they are willing to pay handsomely for productive R&D collabo-

Earlier this month, for example, Glaxo Wellcome signed a wide-ranging agreement in the field of DNA vaccines with PowderJect Pharmaceuticals, a UK biotechnology company. The deal could bring PowderJect more than \$300m in licence, option and milestone payments over the next five to

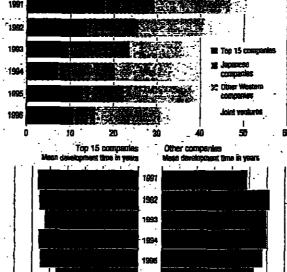
And last month Roche of Switzerland announced an R&D agreement that could bring DeCode Genetics, Iceland's first biotech company, \$200m over five years. It is in human genomics, one of the hottest fields of research, in which scientists are discovering how genes work

The contribution of biowith just six by Glaxo and tech to pharmaceuticals is



The decline can be attri- Side effects: the industry is as dependent on R&D as ever

New molecular entities (NMEs) first launched worldwide



rised as biotechnology products has risen from about 5 ing the 1990s. But Pfizer, one of the most successful US pharmaceutical groups, says that more than 90 per cent of early stage "discovery" research projects are based

on biotechnology. Four related technologies are having a huge impact on pharmaceutical R&D: Combinatorial chemistry

chemical research technique of the 1990s. It miniaturises and automates chemical synthesis, creating a huge diver- carry out 200,000 tests per sity of compounds by com- day. bining a fixed stock of • Bio-informatics uses commolecular building blocks at puters to make sense of the random through a planned series of reactions. Gigantic chemical "libraries" can be created from promising compounds for screening for biological activity. • Genomics studies the

a loosely co-ordinated international endeavour to work 80,000 human genes, is scratch over the past four expected to be finished by years.

growing steadily. The per- 2005. Scientists are already centage of new drugs catego- trying to relate individual gene mutations to the progress of disease and to tailor per cent to 15 per cent dur- drug treatments accordingly - a process known as phar-

 High-throughput screening is a robotic technique for testing drug candidates (derived from combinatorial chemistry) for activity against biological targets (identified by genomics) as quickly as possible. The next generation of "ultra-highis the most exciting new throughput" screening systems, developed by companies such as Evotec of Germany, will be able to

vast volumes of data pouring out of biomedical research. For example, the European Bio-informatics Institute in Cambridge is adding new DNA sequences (partial or whole genes) to its public way genes work together database at a rate of one per with environmental factors minute. Not surprisingly, to determine human devel- specialists in bio-informatics opment, health and sickness. are in extremely short sup-The Human Genome Project, ply - and very highly paid. Even so, SmithKline Beecham has managed to build out the structure and up a 70-strong bio-informatsequence of the estimated ics group almost from

COSMECEUTICALS AND NUTRACEUTICALS . by Victoria Ward

## Acquiring a taste for looking good

is needed if the pharmaceutical industry is to make advances

As biotechnological research gathers greater understanding of nutrition and ageing. its discoveries are being used in the food and cosmetics industries. The results are called cosmecenticals and nutraceuticals and represent one of the largest untapped markets for the fruits of medical research.

Pharmaceutical companies venturing into the areas of nutraceuticals or cosmeceuticals are entering an alien arena; exciting buzz-words that beckon potential players to jump on the band-wagon belie the fact that this is a different game from that which the traditional pharmaceutical companies are used to playing and not one which they are well equipped to win.

of faddishness about them, but neither is new. "Nutraceuticals" was first coined 10 years ago by Dr Stephen L De Felice, Chairman of the Foundation for Innovation in Medicine, with "cosmeceuticals" having a heritage which dates back to 1961, when it was defined by Raymond Reed, founding member of the Society of Cos-

metic Chemists. However, there is still confusion over the terms. A nutraceutical is defined by Dr De Felice as a food, or including the prevention or treatment of diseases, and includes only ingredients and products, the effects of which have been clinically

However, a sweeping sur-vey of any supermarket shelf would reveal products promoted as aiding "well-being"

medical claims and are not panies are looking to invigobacked by clinical studies, yet would generally be classified in the category "nutraceuticals".

This lack of clarity is reflected in assessments of companies are looking for market size, which range in new applications for their value for nutraceuticals ethical expertise. from \$30bn world-wide by the year 2001 (Freedonia), to in the IIS alone (De Felice). But one thing that everyone does seem to agree on is the potential.

Nutraceuticals are set to grow faster than pharmaceuticals, with 8.3 per cent and 6.2 per cent annual growth respectively according to the report, Nutraceuticals to 2001, the Freedonia Group

(June 1, 1997). In the US, the cosmeceutical market is expected to annum - with the retail cosmeceutical segment outstripping over the counter and prescription cosmeceutical segments with 30 per cent, Both terms have the ring 9.5 per cent and 8 per cent annual growth respectively.

One clear driver for this growth - in both areas - is the onset of middle age among the health and youthconscious baby boomers; more than half the US population will fall into the 35-64 age bracket by 2000. Add to this the increasing

spending power of women, the greater awareness of medicine and its alternatives, the shift towards "natural is good", and the cost advantages in prevention over cure and there is a concomponents of food, which vincing case for an explosive provide health benefits, market in products which promote well-being, prevent disease and postpone the signs of ageing.

It looks like a logical step for pharmaceutical companies to be taking. However, they are not alone; the clear consumer pull is an invitation for myriad competitors

to join the frav.

Consumer insight which do not make specific Food and cosmetics comrate often saturated markets with scientific propositions; entrepreneurial companies want to exploit a promising market; and pharmaceutical

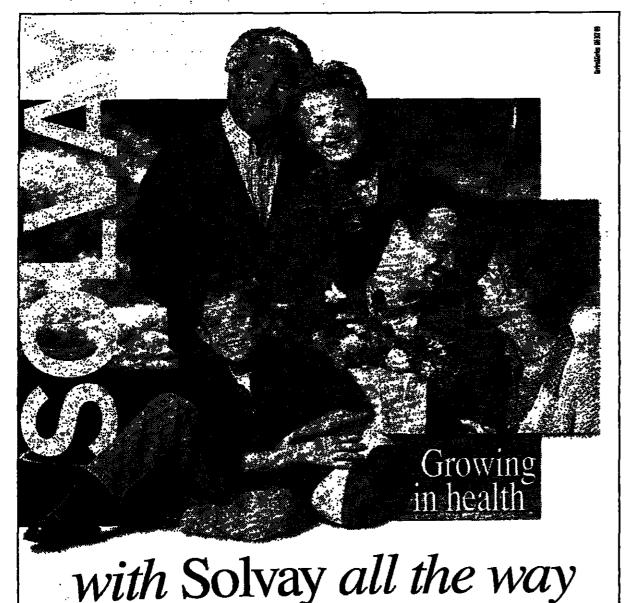
> But do pharmaceutical companies have the capabilialready being worth \$250bn ties that will be required to succeed in these areas? It is clear that success in either of these markets demands consumer insight. On this front, the pharmaceutical industry, which has based its success on medical insight, is a poor contender when squaring up against companies with a retail heritage. They also demand consumer-friendly presentations and pharmaceutical companies still lack technical capability in this area. Tablets and capsules, for example, may be effective ways of delivering active substances to the body, but they're not exactly appetising, nor are they perceived as "natural"

or "healthy". Importantly, pharmaceutical companies also lag behind the major food and cosmetics players in their ability to market and distribute to consumers. This is key not only from a logistical and demand point of view, but also from a regula-

tory point of view. Take cosmeceuticals. The FDA, for example, essentially takes the position that it is the claims being made for the products - whether through labelling or advertising - that determine its intended use and hence its legal status as either a cosmetic or a drug.

The regulatory restrictions are much more costly for products classified as drugs. The conservative, regulatorwary pharmaceutical companies have to compete against

Continued on Page 6



Health is a universal concern. Around the world, families and individuals seek to grow in a balanced. sustained way. The Solvay Pharmaceuticals companies support them in this quest, with a range of therapies to help people in each stage of life.

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a Passion for Progress

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According to the ancient Chinese philosophy of yin and yang, the universe is composed of opposing but interdependent forces. Interestingly, this philosophy resembles the concept of homeostasis, the natural balance that occurs within living organisms, including the harmony between antagonists and agonists that regulate vital functions. Thus, an important factor in the search for new medicines is developing compounds that work together with the body's own restorative and regenerative abilities. ■ To lead healthy lives, we must seek balance with nature, with society, and within ourselves. As a leading pharmaceutical company, Takeda is striving to help people attain this balance.

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**US** • by Nicholas Timmins

# Preparing a new mixture

changed the face of the American health care system

Managed care, currently the American public's least health care system, has had mixed and, in some ways, unexpected effects on the country's pharmaceutical

A system of running health care in which health plan administrators and doctors attempt to ensure that only treatments of proven efficacy and cost effectiveness are offered to patients. managed care has spread far faster and far further in the US than anyone predicted.

Now, at least 60 per cent of Americans, and three-quarters of those covered by private employers, are under managed care, and the numbers are still rising.

The pharmaceutical industry was initially fearful, believing the drive to switch patients to lower cost,

the time being, to have therefore overall costs up. capped what, until four years ago, had been the US' ever-escalating health care loved element of the US bill. By 1992, that had ease through the appropriate reached 13.6 per cent of the country's gross domestic helping cut costs - reducing

Since then, although expenditure has been rising, the share of GDP spent on health in America's booming

eral government figures, they rose 9.2 per cent. A sim- health". ilar, possibly larger increase. is thought to have taken the picture is that clear. Last place last year. Little of this, however, is

ume of drugs being sold. Price competition has helped

Managed care has brand name products would ceutical companies of ecothat drugs are cost effective. Today the picture is more and particularly new drugs mixed. Managed care does not yet out of patent, has indeed appear, at least for helped push volumes and

Raymond Gilmartin, chair-

man of Merck, argues that

better management of disuse of pharmaceuticals is product, easily the highest hospital stays and expensive proportion of spending in high-tech interventions, producing "better patient haster health outcare and better health outcomes". Spending more on pharmaceuticals, or at least the right pharmaceuticals, is economy has remained a good investment he static. argues, helping the health care industry start to make not in 1996, according to feding costs to managing

Others are less sure that year few health maintenance organisations made a profit, due to price rises. Most by their premiums squeezed by far is due to a greater volemployers exploiting overcapacity in the health care drive the spate of drug com-pany mergers, but the non, director of health eco-increasing use by pharma-nomics policy with Hoechst



American revolution: the industry has

(PBMs) who had entered the

managed care game by offer-ing health planners a variety

of techniques for getting doc-

tors to choose less expensive

pharmaceuticals and to per-

suade the companies to

undercut on price.

Marion Roussel, says neither they nor the employers who purchase the services of health plans "are convinced that drug costs should be going up, certainly across the health care system".

For some products and diseases, the evidence that increased prescribing can improve health and lower costs is clear, he says but in many areas purchasers "are not yet fully convinced". The industry has to make a better case that increased pres-cribing pays. "For the aver-age managed care organisation, the connection is not clear. If you increase your drug budget, does it really mean that there are

It is still uncertain, he says, which way purchasers will jump this year, particusumer divide, are well placed larly amid signs that after years of squeeze health maintenance organisations premiums to restore their financial health. Pressure to further restrict formularies

prescribe - and to introduce higher charges on patients for drugs may result.

The picture is further com- higher proportion of the into the chain of 11 cancer pharmaceutical companies sales handled by Medco complicated by the move some of the big pharmaceutical coming from Merck's product range than in the past. panies have made into pharmacy benefit management. The PBMs are also seen by Since 1993, Merck, Smith- some to face a conflict that there was a conflict of Kline Beecham and Eli Lilly between seeking rebates interest over prescribing diseases. have all bought up pharmacy benefit managers ing more of their drugs

> managed care organisations a tension which again raises the question of whether higher prescribing is truly cost effective.

> while promising control of

pharmaceutical costs to

As increasing competition After attacking such an in the American health care approach, Merck in 1993 market is forcing greater and cancer. bought up Medco, the most integration, both horizonaggressive of the PBMs, a tally and vertically, fewer move swiftly followed by SmithKline and Lilly. To larger firms in both the purchasing and delivery of date, however, only Merck health care are emerging. has shown a clear benefit from the strategy, with a

clinics run by Salick Health Care and last year took over full management of them -causing critics to charge the second largest manufacturer of anti-cancer drugs becomes directly involved in

patient care. The full take-over followed a falling out between Zeneca and Dr Bernard Salick, the chain's founder, who is launching a new range of centres specialising in Aids

Dr Salick is in negotiation with a number of pharmaceutical companies over potential partnerships based on the argument that the No-one has followed economic data and information from drug trials which

can gain from direct involvement in patient care will provide increasingly critical market information on the

Hexican offi admit drug (

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Worries that drug companies directly owning patient care facilities will lead to unprincipled pressure on doctors to prescribe that company's products can be addressed by having true "Chinese walls" between the two sides of such a business, he argues.

Whether that happens, the continued drive for efficiency and value is still likely to mean over the next "partnerships decade between the various members of the health care system that were unheard of before," Dr Gagnon predicts.

### A taste for looking good

more sassy cosmetics companies which are comfortable in pushing the boundaries with what they claim and telling the consumers what they want to hear.

Another issue that pharmaceutical companies are finding it hard to come to terms with is that of patent still only office protection or, rather; lack of of benefit. it for much of both markets. Natural products, for example, cannot be patented, so companies have to look for other means of gaining a competitive advantage or proprietary position, perhaps R&D spends have been though innovative packaging or delivery systems.

focus driving this market is ting that efficacy to the medon prevention rather than ical community. cure and prevention is dishave been clinically demonstrated to prevent a condition, while the vast majority still only offer some promise

This is not the game that pharmaceutical companies know and are comfortable one of medical, not consumer insight, where large rewarded by patent protection. Reputations and sales Added to this is the fact have been built on proving efficacy and clearly promo-

.Consumer insight and tinctly harder to prove - and marketing will certainly therefore claim. There are grow as more pharmaceutistill relatively few supple-ments, for example, which experience, but the big-food and cosmetics firms have a savings in hospitalisation lead measured in decades. A and other costs?" few companies, such as Johnson & Johnson, which straddle the health/con-

> to exploit the new developments: for most of the large pharmaceutical organisa- are attempting to increase tions, however, nutraceuticals and cosmeceuticals will remain a niche interest. Victoria Ward is a senior consultant. Gemini Consulting, The Life Sciences Group, Cap

Gemini Tel: 0171-340 3391

- the drugs that doctors can

**EUROPE •** by Graham Bowley

## Problems of parallels

Companies fear that cheap drugs will stand in the way of the single

The thorny problem of so-called "parallel" imports the best drugs. has emerged as one of the last year appeared to mark pathetic ear among governpean governments and pharmaceutical companies on the issue but the planned European single currency, which is due to be introduced in January next year, could

complicate the debate. Parallel trade in pharma ceuticals is a consequence of the European single market. In the true spirit of the single market, authorities in Brussels have been keen to support the free movement of drugs across the whole of

But this sits uncomfortably with government regulation of drugs prices which still exist in some nations. In countries such as Portugal and Spain, governments intervene in the market in order to keep prices down so they are affordable for

The consequence of this has been that private dealers have discovered a lucrative trade reselling these cheap goods bought in low-price regions to consumers in countries where markets are less regulated and prices are bigher, such as the UK.

And these traders have been backed by the European authorities: in a landmark ruling, the European Court of Justice judged more than a year ago that two British companies could resell Spanish medicines in the UK; the court decided that the principle of free movement of drugs took precedence over business fears that northern markets would be flooded by cheap medi-

On the face of it, this "par-allel" trade in cheap medicines would seem a boon to consumers in countries such as the UK, who would otherwise have to pay more for their medicines.

But the world's big pharmaceuticals companies complain that the cross-border trade in cheap drugs is actually, in the long-run, to the disadvantage of consumers. They argue that parallel trade stands in the way of a truly competitive single market and endangers crucial research and development. The drugs companies

argue that cheap imports

is where they do most of stage plan: first, prices of again later this year to their research and development. They insist that with- ication drugs would be out healthy profit margins, they cannot afford expensive research and that patients

some progress in resolving ments. Amid fears about declining competitiveness and falling research, European governments recognise an increasing need for action

to bolster Europe's pharma-

ceuticals industry. The result was that in contrast to the heated and largely fruitless talks in 1996 which finished in gridlock, last year's negotiations ended with a framework solution being hammered out which appeared to find favour with both government and industry officials. According to the propos-

would be lifted in European markets in three stages.

The proposed solution foresaw a three-stage lifting of government drug price all prices would be set competitively. Companies hoped that this would eliminate the incentives for private traders to move pharmaceuticals across borders within the European Union.

According to the three- due to meet in Frankfurt over-the-counter, or self-med- revisit this heated issue. tively, then generic medicines and, finally, the price will suffer because, ulti- of patent-protected drugs mately, they are deprived of would be freed.

The first step is the least What the negotiations in controversial since medicine most important issues facing Frankfurt at the end of last prices in Europe's big over the treatment of new EU the European pharmaceuti- year showed was that the the-counter drugs market members from eastern cals industry. Negotiations companies' worries have are, to a large degree, deter- Europe. The industry may in Frankfurt at the end of begun to find a more symmined competitively. Full argue that barriers to trade competition would, therefore, be relatively easy to introduce. There was also stage, affecting generic drugs, also looked within reach.

However, the third-stage, affecting patent-protected medicines, remains contro-versial because of the fear that the lack of competing products in this sector could ead to sharp price rises once prices are freed to move. Companies think that one

way out of this impasse would be to accept that price controls should remain in the case of patented goods but at the same time imposing a block on cross-border trade of the medicines. However, European officials and some industrialists doubt that such a move would be legal, again because it would go against the very fabric of

the single market. Representatives of the and European officials are

Other subjects affecting

allowed to be set competi- drugs companies are also due to be on the agenda: they are to discuss electronic commerce, a growing trend which could make national should be erected until these nations have developed proper patent laws.

But perhaps the most important subject will be the European single currency, the euro. It is not yet clear what affect the euro will have on companies' pricing policies. By removing exchange rates between countries which participate in the monetary union, the euro is expected by some to enhance the transparency of the European pharmaceuticals industry. This could add to competitive pressures. and make it more difficult ferent prices in different countries

According to Cap Gemini, the consultancy: "The price visibility will increase, and the margin at which parallel reduced well below the currently accepted level of 20 per cent. Distributors working in just one country today pharmaceuticals industry ing in just one country today and national government may decide to export tomor-

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ritegal,



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